Shell Oil Company

Annual Report 1973

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Shell Oil Company Annual Report

Year Ended December 31, 1973

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Executive Offices:

Shell Oil Company
Shell Chemical Company
Shell Development Company
One Shell Plaza, P. O. Box 2463
Houston, Texas 77001

The Annual Meeting
of shareholders will be held at the Hyatt Regency Houston (Imperial Ballroom), 1200 Louisiana Street, Houston, Texas, at 11 A.M. Thursday, April 25, 1974. A formal notice of the meeting, together with a proxy statement and form of proxy, will be mailed to shareholders on or about March 15, 1974.

Front Cover

Although growing emphasis is being placed on foreign ventures, the bulk of Shell's exploration and production operations is still in the U.S. One of the main inland areas of field development activity is the Uinta Basin of Utah, where rigs such as this are adding to the nation's oil reserves.

Inside Back Cover

In expectation that U.S. crude oil imports will be much larger in the future, Shell Oil is participating in building a transshipment terminal for very large crude carriers in Curacao. One of the terminal's huge storage tanks capable of holding 750,000 barrels of oil is shown under construction.

Letter to the Shareholders

The relative stability of the first 9 months of 1973, during which we continued to maintain our strong position in the manufacture and sale of petroleum products, was abruptly disturbed in September when changes of an unprecedented dimension began. The first change was the decision by the Organization of Petroleum Exporting Countries (the so-called OPEC countries) to abandon crude oil pricing negotiations and to impose new posted prices unilaterally. This was quickly followed by the Arab-Israeli war and the subsequent production cut-backs and destination embargoes by some Arab countries. Almost before these changes could be assimilated came a further doubling of posted prices by the OPEC members and it seems that we have not yet seen the end of these dramatic turns in events. These developments, and the reactions of the people and the government to them, make the future unusually difficult to assess and plan for. Your Company will continue to face these challenges in a way that will best serve the public interest and satisfy responsibilities to shareholders.

The financial performance of the Company in 1973 improved in relation to the depressed levels of the previous few years. Net income rose from $260.5 million in 1972 to $332.7 million in 1973. A major reason for this was continuing improvement in the performance of the chemical division. Other important factors were the large sales volumes of petroleum products, an increase in domestic crude oil prices under the 2-tier system established by the Cost of Living Council for so-called "new" and "old" crude oil, and the firming up of the prices of most products. Although earnings increased, 1973 net income was less than 7% higher than it was in 1968, notwithstanding that in the 5 years since the last pre-recession year of 1968 revenues increased 43%, crude oil production 20% and product sales 17%. In the same 5-year period capital expenditures amounted to nearly $3 billion, including $581 million in 1973. Thus, the rate of return on shareholder investment in 1973 was only about 11% (about 9% on total investment), which is below the estimated average for U.S. manufacturing industry as a whole. This rate of return is inadequate to provide the capital that will be required by the Company in the years ahead to do its share in supplying the nation's energy needs. Present expectations are that Shell Oil's capital requirements in 1974 will be much greater than in 1973 and will continue to increase thereafter.

Government price controls have had a strong influence on our rate of return. During Phases I and II of the federal economic stabilization program prices of crude oil, gasoline and fuel oil were restricted to August 1971 ceiling prices. The less than 1% overall increase above the base prices of our other products during this period reflected only a partial recovery of increased costs. Early in 1973, under Phase III, we were able to make some increases in product prices, again merely to recover costs already incurred. During the 2½ years of price control, the only substantial relief in the pricing restrictions on domestic crude oil came about last September through the 2-tier pricing system, principally on "new" oil, and at the end of December 1973, with the $1 per barrel authorized increase in prices of "old" oil. In the meantime, labor costs and many other expenses of doing business continued to climb.

It should be emphasized that, except for the increases in crude oil prices mentioned, all product price increases by the company in 1973 were limited to passing through higher costs already incurred. While current regulations allowed a dollar-for-dollar pass-through of the higher costs of crude oil and purchased products, they nevertheless impaired earnings as well as margins because higher costs incurred in one month could not be recovered in higher prices until the following month. The effect of this time lag is greater when costs are increasing rapidly and this was reflected in the lower earnings for the last quarter of 1973.

With regard to Company operations in 1973, the scope of our activities in the international arena was broadened, though by far the largest part of our business is still conducted within the United States. In spreading our base for oil and gas exploration and production, we entered

into new ventures in New Zealand, Indonesia, North Borneo and the Republic of Vietnam, while moving ahead with exploration programs in Canada, South America and West Africa.

We are continuing our attempts to acquire foreign crude oil. To participate in the growing international oil trade, we are investing in a large new crude oil transshipment terminal under construction in Curacao. In the interest of developing new sources of energy, we advanced programs related to tar sands, shale oil, coal and solar energy.

These initiatives complemented other measures we took to help cope with the serious energy problems facing the country. Beginning January 1, 1973 for middle distillates and June 1, 1973 for motor gasoline, Shell allocation programs were implemented to ensure fair and equitable distribution of available products among existing customers. We maintained manufacturing operations close to maximum levels and moved ahead with an intensified energy conservation program in refineries that will achieve fuel savings of several million barrels a year. The latter program is also being applied to the full range of natural gas processing and chemical plants, where further fuel conservation is possible.

While we have been vigorously competing to obtain crude oil supplies and to market products, charges of restraint of trade and monopolization have been made against us and other members of the industry. We flatly deny those charges, and we are confident that we shall deal with them successfully. However, charges of this sort divert management effort that could be better applied to more constructive purposes.

We continued vigorous efforts to inform opinion leaders and the public generally of the nature of the energy problem. Over a period of years we have repeatedly warned of the likelihood that this problem would arise and that it would be of long duration. We also felt that it would call for difficult public decisions and some changes in the present patterns of living. Now that the danger of too great reliance on foreign sources of oil has been demonstrated dramatically, the need for ending wasteful energy use and for urgent development of potential resources in this country should be evident to everyone. The difficulties of reconciling energy needs and environmental aspirations must be resolved by society. For our part, we have attempted to substantiate in detail our conviction that new refineries, offshore drilling and production facilities, marine terminals and other essential plants can be constructed and operated with proper sensitivity to the need for a cleaner and healthier environment. We have tried also to quantify and set out publicly those aspects of energy use that seem to offer the most worthwhile possibilities of energy savings.

In recent newspaper advertisements we have expressed the view that now, as never before, there is need for a careful, patient, cooperative and statesmanlike approach to the problems which face the American people and the oil industry in trying to adapt to energy problems. All we ask is that the government and the public consider the subject with reasonable objectivity and keep in mind that the only way to meet the ever-growing demand for energy is to provide an ever-growing supply of it.

We include in this report, as in last year's, a section on social aspects of the conduct of our business. We have emphasized Shell's sense of responsibility as a provider of basic products and services, as a major employer, as a company that has concern for the environment, and as a corporate citizen that must try to help with social problems where it can appropriately do so. Unfortunately, 1973 began with a strike over an issue we considered one of essential management responsibility. Regrettably, it took several months to resolve the dispute but the outcome was on a basis which did not diminish our ability to manage the Company.

The support of our shareholders and employees is of increased importance to the success of the Company in these unprecedented times and we take this opportunity to thank them for their continuing allegiance.

G. A. Wagner
Chairman of the Board

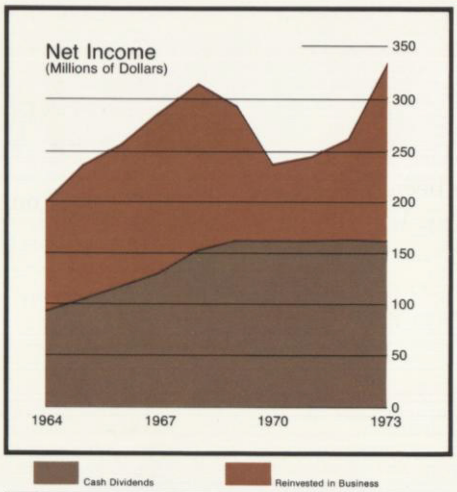
Harry Bridges
President

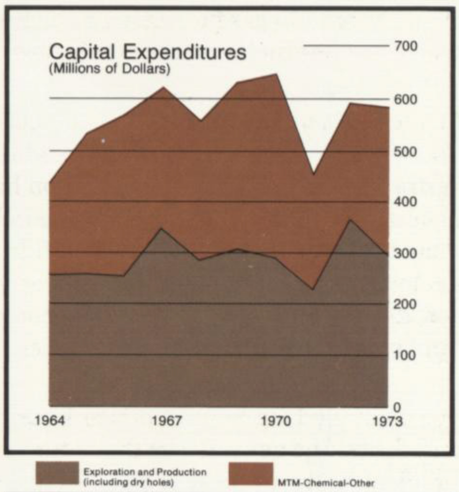
February 11, 1974

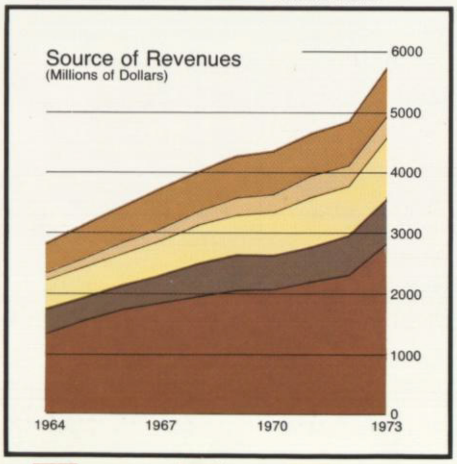
Highlights of the Year

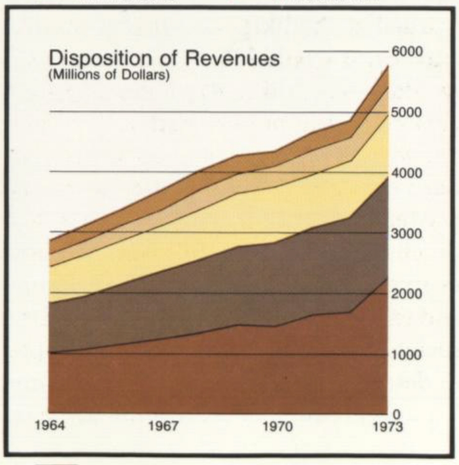
Financial	**1973**	**1972**
Revenues	$5,749,566,000	$4,849,836,000
Net Income	$ 332,694,000	$ 260,480,000
Per Share	$ 4.94	$ 3.86
Cash Dividends	$ 161,704,000	$ 161,751,000
Per Share	$ 2.40	$ 2.40
Shareholders' Investment	$3,095,075,000	$2,924,968,000
Per Share	$45.94	$43.40
Capital Expenditures	$ 580,581,000	$ 590,903,000
Total Assets	$5,381,164,000	$5,171,600,000

Operating	**1973**	**1972**
Refined Products Sold (Barrels Daily)	1,136,000	1,068,000
Refinery Processing Intakes (Barrels Daily)	1,085,000	1,001,000
Net Crude Oil and Natural Gas Liquids Produced (Barrels Daily)	631,000	638,000
Net Natural Gas Produced (Thousand Cubic Feet Daily)	2,268,000	2,460,000
Chemical Revenues	$ 749,052,000	$ 650,469,000









Review of 1973 Operations

Early last year, long before the energy problem became a top priority concern, Shell initiated a comprehensive program to explain the reasons for the situation. The program involved service station dealers in disseminating information to their customers about ways to save fuel.

Problems of Supplying the Surging Demand

The growing energy problem confronting this country had its most immediate and heaviest impact on the Manufacturing-Transportation and Supplies-Marketing (M-T-M) segment of Shell's business. The response took many forms.

In Manufacturing, there was an all-out effort to keep refineries operating at maximum rates consistent with good operating practices and necessary maintenance. This was accompanied by adjustments in refinery operations to provide proper proportions of various products in refinery outturn to meet peaks in demand for heating oils in winter and gasoline in summer. In Transportation and Supplies, inadequacy of domestic crude oil production required the Company to go overseas to procure a substantial portion of its crude supplies for the first time. In Marketing, well before federal programs covering most major products were established late in the year, Company allocation programs were initiated to ensure fair treatment for all existing customers. At the same time, even greater emphasis was placed on increasing organizational and operating efficiency and advertising was redirected from product messages to information about the energy situation and ways to save fuel.

Available statistics indicate Shell Oil ranks third in domestic refinery runs and domestic refined product sales.

Manufacturing

The Manufacturing Organization succeeded in maintaining refinery operations throughout the year at an average level of over 99% of rated crude distilling capacity (calculated according to the new definition of crude intake adopted by the American Petroleum Institute during the year). As a result product outturn reached a record level of 1,138,000 barrels daily for the year.

This was achieved despite the fact that 5 Shell refineries having a total rated crude distilling capacity* of 782,000 barrels a day were struck by the Oil, Chemical and Atomic Workers union for approximately 4 months from late January until mid-May. During the strike these facilities were operated by refinery supervisory and management personnel and staff people. They succeeded in sustaining product outturn close to, and sometimes exceeding, levels prevailing before the strike.

The tighter supply situation and progressively higher prices of both foreign and domestic crude oil added impetus to the refinery energy conservation program announced in 1972. Its goal is to reduce energy consumption by 10% by 1976 based on 1971 production levels and energy requirements. Attainment of this goal will result in estimated savings of the equivalent of 3,500,000 barrels of fuel annually. At year-end, Manufacturing had taken steps that will effect reductions equivalent to 60% of the goal.

Manufacturing focused its planning and initial development activities on ensuring that the Company will be able to play its full role in helping to meet the nation's energy needs in the future. These plans include further debottlenecking of existing refineries and adaptation of facilities to predicted changes in product specifications and raw material characteristics. Initial studies have also been made to consider the possibility of using significant quantities of coal for refinery utility heat requirements.

Another project for which plans were carried forward is a possible new refinery on the East Coast, although further action is dependent on an assured long-term supply of crude oil. Since the state of Delaware banned heavy industry in its coastal areas, where Shell has owned property for a proposed refinery for many years, the Company has been seeking alternative sites. Last year 1,800 acres of industrially zoned property about

1973 Rated Crude Distilling Capacity*

Refinery**	Barrels Daily
Anacortes	88,000
Ciniza	16,600
Houston	268,000
Martinez	100,000
Norco	240,000
Odessa	29,000
Wilmington	86,000
Wood River	255,000
	1,082,600

*As reported to U.S. Bureau of Mines January 1, 1973.
**Locations shown on page 22.

14 miles south of Camden, New Jersey, were purchased after the New Jersey Department of Environmental Protection recommended that the state lease to Shell riparian land along the Delaware River for use in connection with the planned refinery. Various approvals must still be obtained from other federal, state and local regulatory bodies and the regional Delaware River Basin Commission.

Transportation and Supplies

The Transportation and Supplies Organization was involved in problems of ensuring adequate supplies of crude oil for Shell refineries in both the short term and the long term and of procuring refined products from abroad to meet customer demand that could not be filled by the Company's own refinery output. Shell purchasing teams made numerous trips to producing countries in the Middle East, North Africa and elsewhere in efforts to buy oil on both a spot and long-term contractual basis. In this activity they faced severe competition from representatives of European countries, Japan and other American oil companies. As a result of these procurement efforts the volume of crude oil imported from overseas increased from about 30,000 barrels a day in 1972 to about 120,000 barrels a day in the last quarter of 1973. A further increase in imports from overseas would be required in 1974 to keep Shell refineries operating at maximum capacity. These volumes are now placed in the doubtful category by the embargo on Arab oil delivered to the U.S. and by the recently announced U.S. government crude oil allocation program.

Anticipating that the need for U.S. imports will continue to rise for many years, T&S is participating in or planning to use a number of deepwater terminal projects. Two of them are outside the United States. One is in Curacao and the other in Grand Bahama island. Both are transshipment terminals where Shell and other companies may have cargoes transferred from very large crude carriers (VLCC's) into smaller tankers which can be accommodated in existing U.S. ports. Shell Oil has made a multimillion dollar commitment and has a one-third stock ownership interest in the company formed to build and operate the Curacao terminal. It is designed to have a transshipment capacity of 825,000 barrels a day for all users and is expected to be in operation in June 1974. Shell has a contractual arrangement with a foreign shipping company to move crude for Shell from the Persian Gulf to Gulf of Mexico ports via the Grand Bahama terminal. Shipments of 50,000 barrels a day for Shell are scheduled to start in 1975.

Domestically, Shell is participating in the organization and management of the corporations formed to build and operate Seadock and LOOP, the deepwater terminals planned off Texas and Louisiana. Shell is also a member of the group of companies working on plans for a deepwater terminal in Delaware Bay. Domestic deepwater terminals capable of handling VLCC's would reduce the cost of moving crude from the Persian Gulf to the United States, even when compared with the transshipment alternative. Federal legislation, as well as approval of various state and federal regulatory agencies, is required before construction of these terminals.

Several pipeline projects, were undertaken. They include an increase of approximately 250,000 barrels a day in the capacity of Capline, a partially owned crude oil line running from the Gulf to Illinois, and construction of an extensive crude oil gathering system, trunk line and a natural gas liquids line in Michigan. Operations of Explorer Pipe Line, a partially owned products line running from Texas to Illinois, approached capacity level and plans to expand it were started.

Marketing

Marketing operations were conducted under two constraints during the year. One was the increasingly tight product supply situation. This required that allocation programs be established to ensure equitable distribution of Shell products to all existing customers, including service station dealers, jobbers, fuel oil distributors and other customers. The other constraint was the federal price controls on petroleum products, which prevent higher costs, other than raw material costs, from being automatically passed through in the prices of such petroleum products.

The Company began allocating distillate products (mainly home heating oil, diesel fuel, kerosene and jet fuel) in January 1973 and motor gasoline in June 1973. These Shell programs were superseded later in the year by a series of mandatory federal allocation programs on all petroleum products except motor gasoline. They had an increasing impact on Marketing, particularly in the fourth quarter, and it is expected their effects may be still greater in 1974 with imposition of mandatory allocation programs on crude oil and fuels.

Greater sales volumes of refined products, which reached a new high daily average of 1,136,000 barrels, together with the cost pass-throughs allowed by the Cost of Living Council, brought about an increase in refined product sales revenues to $2,819 million for the year. The strong upward trend of customer acceptance of Shell Super Regular gasoline, introduced in 1972 in response to market requirements for improved performance in motor gasolines with low lead content, continued. As a result of the competitive success of Super Regular and Shell's ability

Shell's program to conserve energy in its manufacturing operations is well past the halfway point toward the goal of a 10% reduction in fuel consumption. This is being accomplished by both process improvement and new equipment, such as this addition of more efficient heat recovery tubes on a heater at the Houston Refinery.

to supply the marketing demand during the summer driving season, gasoline sales volume increased about 7%.

Emphasis was placed on cost control and maintenance of high quality customer service to sustain profitability levels in the new marketing environment. Realignment of the Marketing Organization, which began in 1972, was completed, further simplifying the management structure. All staff functions are now located in Houston and field operations are now centralized under 2 vice presidents. One is responsible for Retail Marketing, the other for Commercial Marketing. These changes improved sales organization efficiency and allowed more effective use of staff.

Source and Disposition of Refined Products

(Thousands of Barrels Daily)

Source	1973	1972
Net Crude Oil Produced	547	553
Net Natural Gas Liquids Produced	84	85
Crude Oil Purchased	1,152	1,032
Less: Crude Oil Sold	(675)	(646)
Crude Oil Inventory Change	(5)	(2)
Refined Products Purchased	160	138
	1,263	1,160
Disposition		
Refined Products Sold	1,136	1,068
Used in Chemical Manufactures	78	73
Product Inventory Change	8	(23)
Own Consumption, Losses, Etc.	41	42
	1,263	1,160

All marketing accounting and data processing was consolidated in the Houston Information Center except for retail credit card transactions, which are handled at the Tulsa Credit Card Center. It was announced that credit card exchange arrangements with Continental Oil Company will end March 1, 1974.

Advertising was shifted from product messages to programs designed to inform the public of the causes and nature of the national energy problem and to encourage energy conservation on the road and in the home. All gasoline sales promotional activities were cancelled.

Start of construction of new service stations was halted early in the year. A relatively small number of service stations, mostly car-wash and self-service units, were placed under Company operation. As part of Marketing's continuing program to strengthen the retail network, marginally profitable stations were individually identified and withdrawal of about 750 owned and leased stations was effected in various markets throughout the country.

Pressing the Search at Home and Abroad

In response to the changing petroleum supply situation, the Exploration and Production Organization extended the search for oil and gas into new areas of the world while continuing a vigorous domestic program involving new supplementary recovery technology as well as exploration, both offshore and inland. Efforts to develop fossil fuel resources include plans for coal mining and to develop coal reserves as a potential source of synthetic fuel for the future and to start commercial production in the Canadian Athabasca tar sands in the joint venture with Shell Canada Limited. In the realm of non-fossil sources of energy, Shell joined an enterprise developing solar energy.

While the international and unconventional fuel undertakings are expected to make meaningful contributions in the future, at present all the Company's crude oil and natural gas production is in the U.S., where the bulk of the E&P money and effort continues to go. A significant oil and gas discovery was made in the Gulf of Mexico on acreage acquired in the December 1972 federal lease sale. Other discoveries and field extensions were made elsewhere off Louisiana and in Michigan and Utah.

Available statistics indicate Shell Oil ranks third in domestic production of liquid hydrocarbons. Gross production of liquid hydrocarbons continued at high levels in 1973, averaging 732,000 barrels a day, which is a slight decrease from the average daily rate of 739,000 barrels achieved in 1972. Liquids production by state is contained in the Ten Year Review on page 34. Gross natural gas production averaged 2,679 million cubic feet a day, compared with 2,918 million cubic feet a day in 1972. Net proved reserves at the end of 1973 were estimated at 2.0 billion barrels of liquid hydrocarbons compared with 2.1 billion barrels at the end of 1972 and 7.4 trillion cubic feet of gas compared with 7.6 trillion cubic feet the year earlier. It is also estimated that 79% of the liquids reserves and 83% of the natural gas reserves can be recovered through existing wells.

International Ventures

The following are the new international ventures.

- In Indonesia, Shell has an agreement to obtain one-half of Superior Oil Company's 50% interest in a 40-million-acre concession in the Arafura Sea and onshore West Irian. Seismic work began last September and drilling will begin this year.
- In offshore New Zealand, a one-sixteenth interest was acquired in the Maui gas field and a one-eighth interest in an exploration license covering 7 million acres. The Maui field is estimated to contain about 5 trillion cubic feet of gas and 200 million barrels of crude oil and condensate. The joint venture group developing the field consists of the New Zealand Government (50%), Shell New Zealand, British Petroleum and Todd Petroleum Mining Company, Ltd., besides Shell Oil. Seismic work is being conducted to detail several leads elsewhere in the license area preparatory to the start of exploratory drilling this year.
- In Sabah, North Borneo, Shell Oil has an agreement with Sabah Shell Petroleum to jointly explore and develop on a 50-50 basis a 4,500-square-mile offshore area in which 2 discoveries have been made.
- In the Republic of Vietnam, 3 offshore tracts totaling 5.6 million acres were obtained for a $9 million bonus. Cities Service Company has acquired a 50% interest in this venture. Seismic surveys were started late last year and exploratory drilling is scheduled to begin this summer.

Among foreign exploration endeavors begun before 1973, the joint venture of Shell Oil's wholly owned subsidiary, Shell Explorer Limited, and Shell Canada remains the most important. These developments occurred last year.

- In the Mackenzie Delta of northern Canada, where 2 drilling rigs are operating year-round on a 1-million-acre block in which the joint venture has full interest, natural gas was discovered at Niglintgak and oil was discovered about 20 miles south at Kugpik. Further drilling will be required to evaluate the discoveries. A third rig is drilling in the Peel River area about 100 miles south of the Delta.
- The joint venture also participated with Gulf Oil Canada Limited and Imperial Oil Limited in drilling 2 tests on a 149,000-acre pooled block in the Delta. Both encountered gas shows but additional drilling may be required to determine their commercial potential.
- A gas funding and sales agreement was concluded

Shell is rapidly expanding exploration outside the U.S. This photo shows G.A. Burton, Vice President in charge of International Ventures, watching the drilling of a seismic shot-hole deep in the jungle of Peru, where exploratory drilling will start this year in a joint venture with Amoco International and the Peruvian national oil company.

with Alberta and Southern Gas Co. Ltd., a wholly owned subsidiary of Pacific Gas and Electric Company. In return for a sales commitment of 9 trillion of the first 12 trillion cubic feet of gas which may be discovered, Alberta and Southern is advancing an initial interest-free loan of $11.5 million for 4 exploratory wells. Additional loans of up to $25 million will be made if further drilling is undertaken in the next 3 years. Further loans may be made as reserves are identified. All funds received under this agreement must be repaid, with the timing dependent on the outcome of the exploratory effort.

- Application has been made to the Alberta government for approval of a $700 million project to produce 100,000 barrels of synthetic oil daily from the Athabasca tar sands. It is estimated that over 3 billion barrels of oil can be recovered from a 50,000-acre lease. Construction is scheduled to start in 1976 and operations in 1980.
- Off Nova Scotia, 3 wells were drilled last year, bringing to 32 the number which have been drilled on a 25-million-acre permit area. Hydrocarbon accumulations were encountered at 3 locations near Sable Island. Further seismic work and studies are being conducted to determine the possible commercial potential of the accumulations.

Other foreign exploration ventures are under way in Peru and in Gabon and Senegal, West Africa. In Gabon, where Shell is earning a 25% working interest in 2 offshore permit areas and a 15% interest in a third, drilling began last year. Seismic work is continuing in Peru, where Shell and Amoco International Oil Company are exploring on a 2.5-million-acre contract area, and in Senegal, where a 35% interest is being earned in holdings totaling 18 million acres, mostly onshore. Drilling is expected to start in Peru and Senegal this year.

Domestic Operations

The bulk of E&P operations is still in the United States. The most important area is in the Gulf of Mexico, where Shell is the largest oil producer, with gross output in 1973 averaging approximately 268,000 barrels of crude oil and 945 million cubic feet of gas a day, 41% and 35% respectively of the Company's total. A significant oil discovery was made last year on 2 contiguous blocks among the 14 tracts obtained in the December 1972 federal lease sale. Three permanent platforms from which 96 wells can be drilled have been ordered for development of the field. Hydrocarbons were encountered on 8 more of these tracts, but their potential remains to be determined by further drilling. Two tracts remain undrilled. At the federal lease sale last June, Shell and its partners obtained 2 tracts off Texas totaling 10,105 acres for a total bonus payment of $23.4 million. Exploratory wells have been drilled on both tracts. Hydrocarbons were encountered on 1 tract and additional exploratory wells are planned. At a federal lease sale December 20, Shell and its partners obtained 10 tracts off Florida and Alabama totaling nearly 53,300 acres for $29.4 million. At a sale by the state of Alaska December 13, Shell acquired 5 tracts covering 9,000 acres off the Kenai Peninsula for $5.4 million.

Onshore, the main discovery and development areas are in Michigan and Utah. In the northern Pinnacle Reef belt of Michigan, 145 exploration wells have resulted in 89 discoveries, a success ratio of 61%. A crude oil gathering system and trunk line to an existing common-carrier pipeline were completed late last year. A gas processing plant capable of handling 350 million cubic feet per day is scheduled for completion in early 1974. At capacity the plant is expected to yield about 30,000 barrels of natural gas liquids per day. In the Uinta Basin of Utah, 72 Shell-operated wells have been completed as of the end of 1973. The production rate is currently constrained due to the difficulty in transporting the waxy, high pour-point crude and the lack of local markets. Exploration is also under way in the Appalachian Basin of New York and Pennsylvania; the Michigan Basin north and south of the Pinnacle Reef trend; central and south Florida; the area of eastern Mississippi and western Alabama; the Albuquerque Basin in New Mexico; the Wasatch Plateau in Utah; the Williston Basin in Montana and North Dakota and the Sacramento Basin in California.

The short supply situation gave new impetus to supplemental recovery methods as a means of increasing domestic reserves. New technology currently being evaluated includes a miscible-drive in West Texas and a chemical waterflood in the Benton field in southern Illinois. A new waterflood project was also put into operation in the Signal Hill field in California.

New Energy Sources

Shell is also responding to the tight energy situation in 2 ways new to the Company.

- Plans are proceeding on a lease in southeastern Montana estimated to contain 1 billion tons of subbituminous low-sulfur coal economically recoverable by surface mining techniques for coal mining and to develop coal reserves as a potential source of synthetic fuel for the future. Demand for low-sulfur coal is increasing sharply because of higher air quality standards. Plans include restoration of the land to an environmentally sound condition.
- Shell has committed $3 million in Solar Energy Systems Inc. (SES) to help develop practical uses of solar energy. SES intends initially to manufacture a low-cost cadmium-sulfide solar energy cell similar to those used in space craft. It plans eventually to develop a solar energy system that can supply supplemental electric power, heating, and cooling for residences, business and industry.

Shell's largest foreign exploration effort is the joint venture with Shell Canada Limited, which has discovered both gas and oil in the vast wilderness of the Mackenzie River Delta in northern Canada. Shown here during the summer when the ice cover of the tundra has melted is 1 of 3 rigs operating year-round in the area.

Chemical

The Improving Trend Continues

Improvement in 1973 operating results exceeded expectations as the chemical sector of the economy grew nearly half again as fast as the real Gross National Product. Shell Chemical revenues, up 16% in 1972, rose another 15% last year, reaching $749 million. Strong demand caused a much-needed firming of prices and enabled most plants to operate at effective capacity.

The better results came despite a 4-month strike and fuel and feedstock problems and reflected the full impact of a profit improvement program begun 3 years ago which held down costs despite pressures from inflation. Shell Chemical is now organized into 14 business centers, whose managers plan and coordinate strategy for their products, and into functional organizations, such as Manufacturing and Sales, responsible for maximizing efficiency in their areas. This structure gives flexibility in responding to changes in the business environment and optimizes allocation of financial, technical and human resources, allowing continued reduction in manpower levels as investment and revenues grow. On-going review of the viability of existing businesses led to termination of Isoprene rubber production.

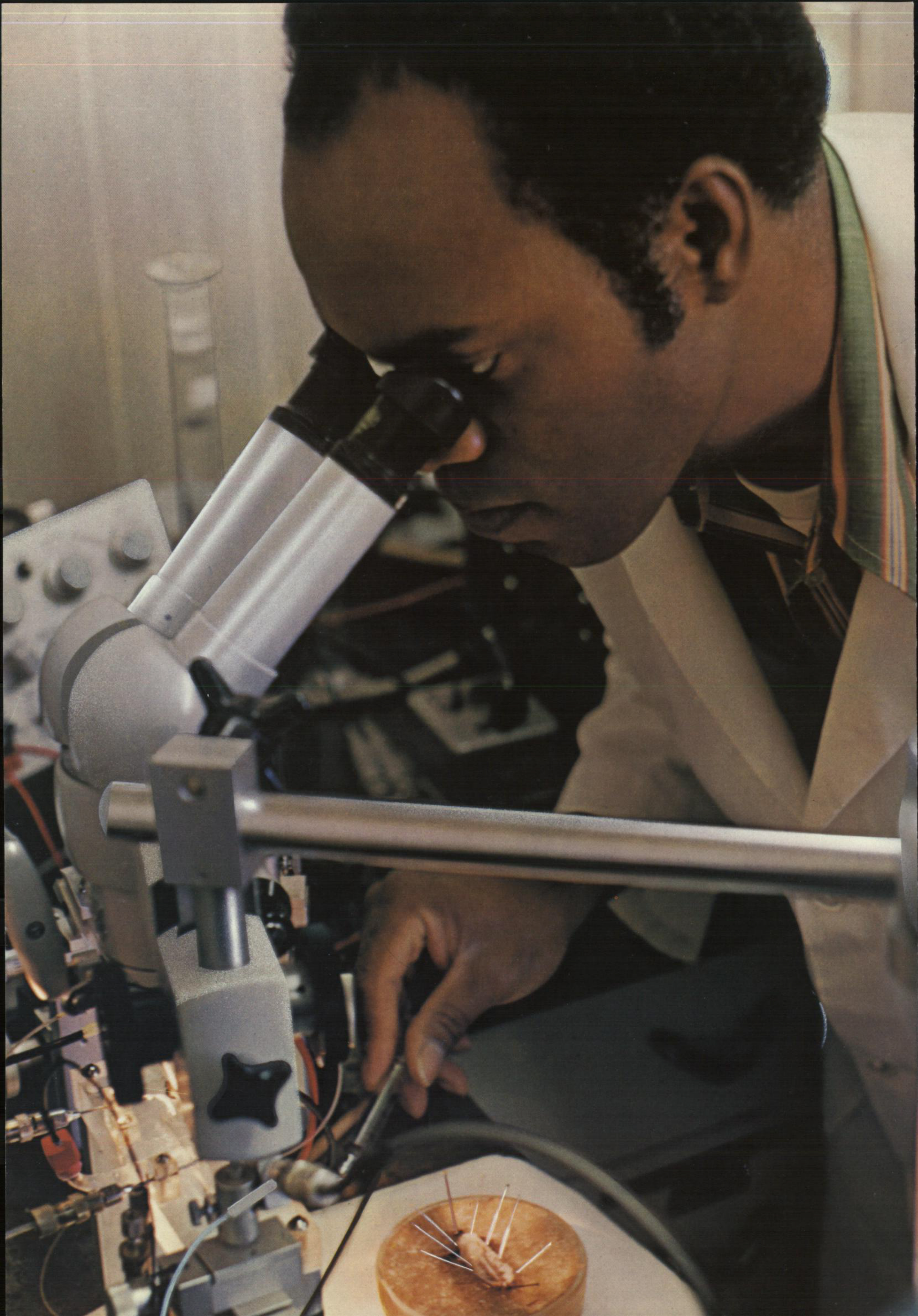
Sales volumes and revenues of most products rose, paced by a 56% revenue gain in polypropylene sales. Sales and internal use of many products, including olefins and aromatics, detergent alcohols, solvents, ethylene oxide, vinyl chloride and most polymers, equalled plant capacities. Sales of new products continued to accelerate, with large gains in KRATON® and KRATON G Thermoplastic Rubbers. KRATON has become a preferred material for dress and leisure shoes. KRATON G is quickly penetrating the automotive, medical devices and surface coatings fields due to its enhanced processing and durability qualities.

A salesman in one of the nation's leading retail store chains explains the advantages of leisure shoes made with KRATON Thermoplastic Rubber. Sport and leisure footwear is only one of many rapidly growing markets for KRATON Rubbers, one of Shell Chemical's newer lines of products.

Strong sales gains were recorded in most agricultural chemicals, including AZODRIN® and NEMAGON®, because of high farm commodity prices and severe insect infestations. Successful introduction of new products also contributed to the good performance. BLADEX® Herbicide, in only its second full year of production, is now the Agricultural Division's revenue leader, having won rapid acceptance for controlling weeds in corn. Other new products included NUDRIN®, an insecticide used mainly on tobacco and cole crops (cabbage, broccoli, etc.), and CAN CARE®, used to control insects and mask odors in garbage cans.

Although competition for hydrocarbons is expected to intensify, the chemical industry should be able to obtain necessary raw materials, although at much higher prices. Use of hydrocarbon raw materials in making synthetic organic chemicals represents only a small fraction of total U.S. oil and gas demand and is essential to the economy. Products derived from petrochemicals are widely utilized in construction, transportation, agriculture and electrical industries, in medicine and textiles and in a multitude of consumer products.

Shell Chemical has a strong position in basic petrochemicals, with a 10% share of the 50-billion-pound-a-year olefins and aromatics market. This position is being strengthened by construction of a gasoline-olefins unit at Norco, Louisiana, scheduled for start-up in 1976. It is designed to produce ultimately 1 billion pounds a year of ethylene, the main chemical building block in the manufacture of plastics, antifreeze and synthetic fibers. Shell Chemical has also continued to improve its downstream derivatives position. It is a leading producer of detergent alcohols and epoxy resins. The Company's second 1,000-ton-a-day vinyl chloride unit was started up at Norco last year. Shell entered this business only 2 years ago and now has the world's largest capacity. Vinyl chloride is the raw material for polyvinyl chloride, a widely used plastic. Other plant projects under way include additions to polystyrene and KRATON facilities and a new KRATON G unit, all at Marietta, Ohio.



Research and Development

Bringing It All Together

The first full year of all Shell research under the administration of Shell Development Company, mainly in Houston, has confirmed expectations that increased productivity and better alignment with business functions would flow from the consolidation. Expenditures for Company research in 1973 amounted to $62 million. At the end of the year, 1,600 persons were engaged in research and development.

The 3 main segments of Shell's business, M-T-M, E&P and Chemical, have counterparts in Shell Development working on both technology and products. A prime objective of new technology is to increase the effectiveness of the search for and production of petroleum and unconventional sources of energy and for improving the efficiency of fossil fuel consumption by customers and in the Company's own operations. Aside from developing new and improved products, much of the product work is on modifications to meet changing requirements created by environmental regulations, energy shortages and technological developments. The chemical group also devotes itself to new products for increasing agricultural output and controlling insects in homes and commercial establishments.

In Shell research related to exploration and production, a major program in which significant progress has been achieved involves a new order of expertise in geophysics, including new means of interpreting seismic reflection amplitudes in terms of lithology and fluid content, which may lead to direct detection of hydrocarbon accumulations. A new sand consolidation method has been tested successfully in the field. It greatly extends conditions in which this type of sand control can be applied and can contribute to the efficiency and longevity of existing wells. Research is continuing on tertiary recovery methods, including a miscible drive project in West Texas and a chemical waterflood in Illinois, and on conversion of tar sands, oil shale and coal to liquid and gaseous products. In the field of metallurgy, research work is proceeding on a new steel which will enhance Shell's ability to economically exploit deep sour gas reserves in Mississippi where severely corrosive bottom-well conditions exist.

Research related to products for improving farm crop yields is an area receiving much attention in Shell Development Company. This photo shows a member of the staff at the Biological Sciences Research Center observing the effects of an insecticide under development which acts in a different way from existing products and is also safe to handle.

M-T-M-related research encompasses improved products and manufacturing process changes designed to conserve energy and otherwise reduce costs. The contribution that research made to the development of Shell Super Regular gasoline is being followed up with efforts to further improve gasoline performance and to enhance the Company's ability to provide high performance gasolines when the use of lead as an anti-knock additive is minimized. Work on polymeric and other additives is showing promise in formulating superior multi-viscosity heavy-duty lubricants. Manufacturing process research has yielded results which may significantly lower refinery operating costs, especially in catalytic reforming technology.

Chemical-related research programs involve new animal health products, significant progress toward new insecticides, development of a process for making detergent-range olefins, and continued support for KRATON® Thermoplastic Rubbers and KRATON G products. Two new products were readied for marketing this past year as a result of the animal health research: TASK® Tabs Anthelmintic for Cats and Puppies and EQUIGEL® Equine Anthelmintic for horses. Work in the field of polymers has resulted in substantial improvements in Shell's line of high-impact polystyrene and polypropylene.

Shell Oil Company and a subsidiary of Shell Petroleum N.V. have an arrangement whereby each performs for, and exchanges with the other, research activities related to petroleum technology, chemicals, and other fields. For instance, a new herbicide discovered at Sittingbourne Laboratories in England is being developed by Shell Development for use in the U.S.

® Shell Trademark

New Dimensions in Social Performance

This section sets forth the Company's posture on some public expectations concerning corporate social performance and the ways Shell conducts its business.

The impact of current events and changing public policies requires a continuing concern about the effect of corporate decisions on people and their social and physical environment. Foremost among those directly affected by Shell are customers, employees, service station dealers and shareholders. Countless other individuals and groups are also affected. Their views are diverse and often in conflict and Shell's responsibility to each varies, depending upon the circumstances. Nonetheless, Shell's aim is to give conscious and balanced consideration to their interests and expectations regarding the Company's social performance.

The National Energy Problem

Last year many of Shell's long-expressed concerns about the U.S. energy supply became realities, providing a forceful reminder that whatever else people look for in the area of social performance, their basic expectation is that the Company fulfill its fundamental purpose diligently and well. In the context of unprecedented national energy problems, this means for the Company to provide its full share of gasoline, heating oil and other needed products. Other sections of the report give details of Shell's intensified efforts to find and produce crude oil and natural gas and to make and distribute petroleum products. Here, some other dimensions of social performance involved in the national energy problem are examined.

Consumer Relations

In addition to the trend of rising consumer expectations in the marketplace, product shortages and continuing inflationary pressures added to the many complexities faced in satisfying several million customers. Ensuring fairness for all customers in the distribution of products in short supply is a matter of special concern. This was pursued through a voluntary allocation program begun early in the year and continued until superseded by mandatory federal programs. Fairness in prices is another matter of concern to Shell and its customers. As explained in the President's letter, Shell price increases were in accordance

Again this year employees received a personalized statement of benefits under the various benefit programs. Each statement contained two sections, one showing the benefits designed to protect the employee and his family now and the other showing what the benefits will be at the time of retirement. This year's report reflected improvements in the Hospital-Surgical-Medical Program and the addition of a Supplemental Group Life Insurance Plan.

with federal price control regulations which allow increases based on higher costs of materials. The surging costs of crude oil, which resulted from short supply and producing countries' actions, caused higher product prices. Meeting public needs for various categories of products also meant sometimes foregoing the pursuit of optimum profitability. This was exemplified in M-T-M by increasing the availability of heating oil at the expense of more profitable gasoline.

Energy conservation is another aspect of the energy problem which received appropriate attention. In addition to significant progress in the program of reducing fuel consumption in Manufacturing, described more fully on page 5 of this report, steps were taken to explain the potentials and limitations of energy conservation and to spur energy saving by consumers, particularly in the operation of automobiles. This included special advertising and involvement of dealers in information programs for customers (photo page 4). Many customers also took advantage of Shell's "Actionline" nationwide toll-free telephone service and other improved procedures for quicker and more satisfactory resolution of customer inquiries and complaints. To help assure Shell-wide consumer responsiveness, a Manager, Market Research and Consumer Relations, was appointed last year.

Public Information

Measures leading to a long-term solution of the energy problem require adequate understanding by the public of its nature and underlying causes. Efforts begun in prior years to bring the facts of the situation to the public were carried forward vigorously. This involved numerous public speaking appearances by senior officers and other Company people and publication of papers on various aspects of the problem, over a quarter million of which have been distributed. On page 36, there is a pictorial display of these and other public interest publications with the address where requests for copies may be sent.

Employee Relationships

Basic aspects of pay, working conditions and employee and family security benefits received continuing attention. For example, employee relations programs developed and implemented last year include a new supplemental group life insurance program and Provident Fund (employee savings plan) improvements which provide immediate full vesting and a wider range of annuity options. The Company also encouraged employees to form car pools and to adopt other energy-saving practices on and off the job.

Public interest in occupational safety and health and equal opportunity for minorities and women are dimensions of corporate social performance reported upon below.

Occupational Safety and Health

Existing occupational safety and health programs were expanded and strengthened and new programs and policies adopted to meet the increased concern of Shell employees, of the public and of state and federal governments, and to assure compliance with new statutory standards and regulations. A measure of the effectiveness of Shell's safety and health programs was the fact that lost-time work injuries were reduced from 375 in 1972 to 329 in 1973. These figures include injuries that resulted in 5 fatilities in 1972 and 6 in 1973. Futhermore, government inspectors, in 18 safety and health inspections, found only a few minor exceptions to federal safety standards. Plans call for even greater efforts to prevent work injuries and loss of life.

A strengthened and more comprehensive occupational health program was developed by the Corporate Medical Department. Certain features of the program were initiated in 1973, and Company-wide implementation will be completed during 1974. The program will provide to Shell employees broadened professional services

Shell's Occupational Safety and Health Program was strengthened through adoption of a new Medical Program, part of which was a new policy on alcoholism, which was thoroughly explained to management in a series of lectures by the Company Medical Director.

necessary for the protection of their health and well-being from those hazards and stresses determined to be inherent in the work environment. It is founded upon the essential concept that the health of the individual employee is an area of proper and vital concern to Management, particularly as it relates to the occupational environment, and is designed to effect increased utilization of the accepted techniques and procedures which constitute the practice of modern preventive medicine. The program places a heightened emphasis on health education, periodic health examinations, immunizations, and close medical surveillance of those employees involved in work in which potential health hazards may exist. Some features of the program implemented in 1973 include:

- Special periodic health examinations among employees engaged in the manufacturing and handling of specific materials at Shell refineries and chemical plants.
- Dissemination of an official policy on alcoholism, the keystone of which is the recognition that alcoholism is a disease which may and should be treated in the same way as any other major illness.
- Immunization against tetanus by Shell medical personnel at locations with large groups of employees.

Occupational safety and health is the subject of increased interest on the part of labor unions. A demand by the Oil, Chemical and Atomic Workers that decisions as to what constitutes a safe and healthful working place be turned over to third parties led to an unfortunate, lengthy strike in the first half of the year. The Company's position was and is that it has responsibility for employee health and safety. While willing to bargain collectively on working conditions involving, of course, health and safety, Management will not turn over the decision-making process to a committee or to a third party. The strike was settled by continuing the successful safety committees and expanding their role to include matters of health, and agreeing—as the Company has always been ready to do—to negotiate with the union on health and safety matters during the term of the contract.

The Industrial Hygiene Department stepped up efforts in detecting, measuring and controlling exposure to chemical and harmful physical agents. Surveys were started at a number of facilities to determine if potential health problems exist in areas not subject to government regulation.

Equal Opportunity

The rise in the percentage of minority personnel continued as additional emphasis was placed on reaching the objective of a representative work force. Over the past 5 years while Shell's work force has decreased by over 18%, minorities have increased from 8.8% to almost 11%. The percentage of women is just over 16%, and this figure has remained about the same over the last 5 years. However, advances were achieved in expanding their job opportunities in new areas of responsibility. Women moved into a wider variety of positions. Also, all employee policies and benefits have been equalized for men and women.

Special emphasis was given in professional recruiting to minorities and women, and more minority and women recruiters were used. As a result, 12% of professional employees hired through this program were from minority groups and 10% were women, although minority and female students available in disciplines of primary interest to Shell represent less than 5% of graduates. Plans to accelerate the advancement of minority and women employees are continuing. Every department is involved in this effort. In addition, special emphasis is being given to hiring veterans.

Environmental Conservation

Capital expenditures and operating costs for air and water conservation and noise abatement purposes continued at a level of about $70 million. Major projects undertaken or completed in 1973 include:

- Two electrostatic precipitators on catalytic cracking units at Wood River Refinery to further reduce particulate emissions.
- Additional and improved oil recovery facilities at Houston, Martinez, Anacortes and Wood River Refineries.
- Vapor control equipment installed on an additional 3.5 million barrels of product storage facilities.
- An incinerator to destroy specialized wastes at the Norco vinyl chloride plant.
- Continued upgrading of equipment and procedures for oil spill prevention and clean-up at marine, pipeline and marketing plants.
- Eliminating or protecting field sumps where they offer a threat to birds or wildlife and landscaping crude oil production facilities in many wilderness and urban areas.

A quarterly periodical, Ecolibrium, was started in 1972 to report Shell's commitment to environmental conservation and allied subjects of general interest (See page 36). Distribution has increased to about 15,000 copies which go to journalists, educators, environmentalists, government representatives and industrialists.

Community Affairs

The Company continued to expand its role in helping to improve the social and economic prospects of communities by activities appropriately related to its business function. This is spelled out in a new publication, "A Continuing Concern . . . A Growing Involvement," (see

The Company published a number of papers on various aspects of the nation's energy problem to enhance public understanding and in the hope of contributing to development of productive attitudes and policies. Besides programmed distribution to legislators and officials of federal, state and local governments, many thousands were sent out in response to individual written requests.

page 36), designed to provide a response to public and employee interest in this aspect of Shell's social performance. Among last year's developments were:

- Appointment of R. J. Bauer, Vice President, Purchasing and General Services, by Secretary of Commerce Frederick Dent to serve on the National Minority Purchasing Council and as Chairman of the Houston Regional Council. This resulted from Shell's minority vendor program which led to purchases of $4 million from minority vendors in its first full year of operation.
- Expansion of the program of depositing funds in banks owned and operated by minority businessmen, with deposits at 37 such banks.
- Continued participation in a New Orleans Minority Enterprise Small Business Investment Corporation, which in roughly its first year disbursed or made commitments for loans to minority business people totaling $688,000.
- Further expansion of the Shell-sponsored Automotive Professional Training (APT) program, designed to motivate students through their interest in cars to finish high school. It is now in 62 high schools and 4 correctional institutions. Of 1,718 students who completed the course in 1973, 62% plan to continue their education and 19% have found employment at service stations.

University Relations

Activities concerned with the academic community were continued and novel educational approaches at certain universities were supported. An example of the latter was a grant to Louisiana State University on behalf of a new interdisciplinary environmental program. It brings together students in several disciplines, such as engineering, law, humanities, journalism, business and science, to give them a balanced background for dealing with environmental matters they may encounter in their careers. The "Shell-Faculty Forum" program again provided an opportunity for improved understanding between young professors and Shell people who have unrestricted discussions of public issues and the Company's performance in these regards.

Shell Companies Foundation, Incorporated

The foregoing dimensions of Shell social performance are enhanced by Shell's philanthropic program. This consists essentially of donations to the Shell Companies Foundation, Incorporated, a not-for-profit corporation formed in 1953, which makes contributions to education, community funds and national and local organizations working at meeting such needs as those related to equal opportunity, health, family services, art and religion. Besides continued support of science and engineering, the Foundation in 1973 offered increased support to education for women and programs designed to improve their career opportunities, scholarships for minority students planning careers in business or technical fields, a new program of urban studies, and to such academic areas as the humanities, occupational health, law, and the social sciences. In 1973, the Foundation's budget was $2.4 million, bringing its total contributions from 1953 through 1973 to $33.8 million. A booklet, "Pattern for Giving," describes the Foundation's activities (See page 36).

H. Bridges, President, and G.A. Wagner, Chairman.

F.S. McFadzean, William Blackie, Harold F. McGuire and J.F. Redmond.

Executive Changes

Two changes were made in the Board of Directors. C. W. Cook, Chairman of the Board of Directors of General Foods Corporation, was elected a Director. R. M. Hart, a Director and Executive Vice President, resigned to accept a position with Shell International Petroleum Company Limited in London. His responsibilities relating to the M-T-M segment of the business were assumed by J. B. St. Clair, Executive Vice President and President, Shell Chemical Company.

The following changes were also made in the senior management of the Company:

J. G. Wackwitz, formerly a senior officer of Shell International Petroleum Company Limited, was elected Vice President-Finance. He succeeded G. S. Wolbert, Jr., who became Vice President and Associate General Counsel, preparatory to succeeding O. L. Stone, Vice President and General Counsel, who will retire this coming April after a Shell career of 37 years.

K. Doig, Vice President in charge of Planning and Economics, was named to a new position, Vice President in charge of Mining Ventures. J. F. Roorda, General Manager M-T-M/Chemical Economics, was elected Vice President, replacing Mr. Doig in the Planning and Economics position.

C. L. Blackburn, Vice President in charge of the Southern Exploration and Production Region, became Vice President and General Manager, Transportation and Supplies Planning, preparatory to succeeding S. G. Stiles, Vice President in charge of Transportation and Supplies, who will resign April 1 to accept a position with a

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Directors and Officers

BOARD OF DIRECTORS

G. A. WAGNER
Chairman
President, Royal Dutch Petroleum Company

H. BRIDGES*
President and Chief Executive Officer

WILLIAM BLACKIE
Retired Chairman of the Board,
Caterpillar Tractor Co.

C. W. COOK
Chairman of the Board,
General Foods Corporation

CHARLES de BRETTEVILLE
Chairman of the Board and Chief Executive Officer, The Bank of California National Association

WILLIAM P. GWINN
A Director, United Aircraft Corporation

S. M. McASHAN, Jr.
Chairman of the Board,
Anderson, Clayton & Co.

F. S. McFADZEAN
Chairman of the Board, The "Shell" Transport and Trading Company, Limited

HAROLD F. McGUIRE*
Partner, Wickes, Riddell, Bloomer, Jacobi & McGuire

J. F. REDMOND*
Executive Vice President

J. B. ST. CLAIR*
Executive Vice President
President, Shell Chemical Company

MONROE E. SPAGHT
A Director, Royal Dutch Petroleum Company

J. E. WALLACE STERLING
Chancellor, Stanford University

*Member of the Executive Committee

OFFICERS

H. BRIDGES
President and Chief Executive Officer

J. F. REDMOND
Executive Vice President

J. B. ST. CLAIR
Executive Vice President

VICE PRESIDENTS

Exploration and Production

G. C. BANKSTON
Production

R. H. NANZ
Exploration

E&P Regions

G. A. BURTON
International Ventures

R. L. FERRIS
Western

S.M. McAshan, Jr., Monroe E. Spaght and J.E. Wallace Sterling.

William P. Gwinn, J.B. St. Clair, Charles de Bretteville and C.W. Cook.

Royal Dutch/Shell Group company.

R. J. O'Brien, General Manager of the Offshore Division, was elected Vice President in charge of the Southern Exploration and Production Region, succeeding Mr. Blackburn. Subsequently, Mr. O'Brien resigned to become a Vice President of Shell Canada Limited. He will be succeeded by J.C. Threet, who returns to Shell Oil from Shell Canada, where he was Vice President Exploration and Production.

In Marketing, J. B. Henderson, Vice President and General Manager, Products and Planning, was named to become Vice President in charge of Marketing May 1 upon the retirement of F. H. Staub after 37 years of service. W. J. Bittles, Vice President in charge of Retail Sales-West, was named Vice President in charge of Retail Sales upon the retirement of E. F. McGee, Vice President in charge of Retail Sales-East, after 27 years of service. C. L. Towers, Vice President, retired after 37 years' service.

P. F. Deisler, Jr., who had been Director, Supply and Manufacturing of Compania Shell de Venezuela since 1971 and who was Vice President of Shell Oil before joining C.S.V., was elected a Vice President of Shell Chemical Company.

M. N. Papadopoulos, Vice President, Shell Development Company, in charge of the Shell Research Complex, became President of Shell Pipe Line Corporation, succeeding J. E. Green, who retired after a Shell career of 33 years.

S. A. Ballard, Vice President, Shell Development Company, retired after 36 years' service.

Manufacturing, Transportation and Supplies and Marketing

J. W. SHEEHAN
Manufacturing

S. G. STILES
Transportation and Supplies

C. L. BLACKBURN
Transportation and Supplies—Planning

F. H. STAUB
Marketing

W. J. BITTLES, Jr.
Retail Sales

J. B. HENDERSON
Products and Planning—Marketing

E. F. LOVELAND
Commercial Sales

Mining Ventures

K. DOIG

Employee Relations

A. C. HOGGE

Financial

J. G. WACKWITZ

Legal

O. L. STONE

G. S. WOLBERT, Jr.

Planning and Economics

J. F. ROORDA

Public Affairs

H. E. WALKER

J. C. PERKINS
Washington Office

Purchasing and General Services

R. J. BAUER

Tax

D. R. MILTON

SHELL CHEMICAL COMPANY
A Division of Shell Oil Company

J. B. ST. CLAIR
President

P. F. DEISLER
Vice President

J. W. ELGER
Vice President

SHELL DEVELOPMENT COMPANY
A Division of Shell Oil Company

T. BARON
President

J. D. HELDMAN
Vice President

R. C. THOMPSON
Controller

W. W. WESTERFIELD, Jr.
Secretary

V. G. WHITTINGTON
Treasurer

Shell Oil Company Operations

CORPORATE

Head Office
One Shell Plaza—Houston, Texas

● Houston Information Center—Houston, Texas
□ Credit Card Center—Tulsa, Okla.
△ Technical Computing Center—Houston, Texas

EXPLORATION AND PRODUCTION

● Region Offices

International Ventures—Houston, Texas
Southern—New Orleans, La.
Western—Houston, Texas

● International Exploration Areas

1. Offshore Nova Scotia
2. Mackenzie Delta
3. Athabasca and Peace River Tar Sands
4. East Central Peru
5. Gabon
6. Senegal
7. Vietnam
8. Sabah
9. West Irian
10. New Zealand

● Domestic Exploration Areas

1. Williston Basin
2. Northern Michigan Basin
3. Northern Appalachian Region—Pennsylvania and New York
4. Albuquerque Basin—New Mexico
5. Central Mississippi
6. Central Florida
7. Offshore Louisiana and Texas
8. Eastern Gulf of Mexico
9. Sacramento Basin
10. Gulf of Alaska

Producing Areas

MANUFACTURING

● Refineries

Anacortes—Anacortes, Wash.
Ciniza—Gallup, N.M.
Houston—Deer Park, Texas
Martinez—Martinez, Calif.
Norco—Norco, La.
Odessa—Odessa, Texas
Wilmington—Wilmington, Calif.
Wood River—Wood River, Ill.

MARKETING

● Commercial and Retail District Offices

Anaheim, Calif.
Atlanta, Ga.
Babylon, N.Y.
Baltimore, Md.
Birmingham, Ala.
Boston—Wellesley, Mass.
Charlotte, N.C.
Chicago—Des Plaines, Ill.
Cleveland—Parma Heights/Rocky River, Ohio
Dallas, Tex.
Davenport—Bettendorf, Iowa
Dayton—Miamisburg, Ohio
Detroit—Southfield, Mich.
Grand Rapids, Mich.
Hartford—E. Hartford, Conn.
Honolulu, Hawaii
Houston, Texas
Indianapolis, Ind.
Long Beach, Calif.
Louisville, Ky.
Los Angeles—Burbank, Calif.
Milwaukee—Brookfield, Wis.
Miami—Hollywood, Fla.
Nashville, Tenn.
Newark—Clifton, N.J.
New Orleans, La.
New York—New Hyde Park, N.Y.
Oakland, Calif.
Philadelphia—Valley Forge, Pa.
Phoenix, Ariz.
Portland, Ore.
Providence—Cranston, R.I.
Richmond, Va.
Sacramento, Calif.
San Bernadino, Calif.
San Diego, Calif.
San Francisco—San Mateo, Calif.
San Jose, Calif.
Santa Monica—Culver City, Calif.
Seattle—Bellvue, Wash.
Southern California—Downey, Calif.
St. Louis—St.Ann, Mo.
Syracuse, N.Y.
Tampa, Fla.
Washington, D.C.—College Park, Md.
White Plains, N.Y.

TRANSPORTATION AND SUPPLIES

● Operations Offices

East of Rockies—Houston, Texas
West of Rockies—Los Angeles, Calif.

Pipelines—including partially owned

▬ CRUDE
▬ PRODUCT
▬ ▬ ▬ L. P. G.

SHELL CHEMICAL

○ Division Offices

Agricultural—San Ramon, Calif.
Industrial Chemicals—Houston, Texas
Petrochemicals—Houston, Texas
Polymers—Houston, Texas

● Plants

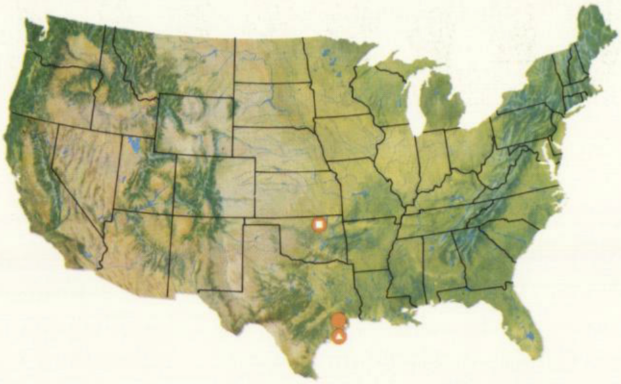
Denver—Denver, Colo.
Dominguez—Wilmington, Calif.
Geismar—Geismar, La.
Houston—Deer Park, Texas
Marietta—Marietta, Ohio
Martinez—Martinez, Calif.
Mobile—Axis, Ala.
Norco—Norco, La.
Princeton—Princeton, N.J.
Woodbury—Woodbury, N.J.

SHELL DEVELOPMENT

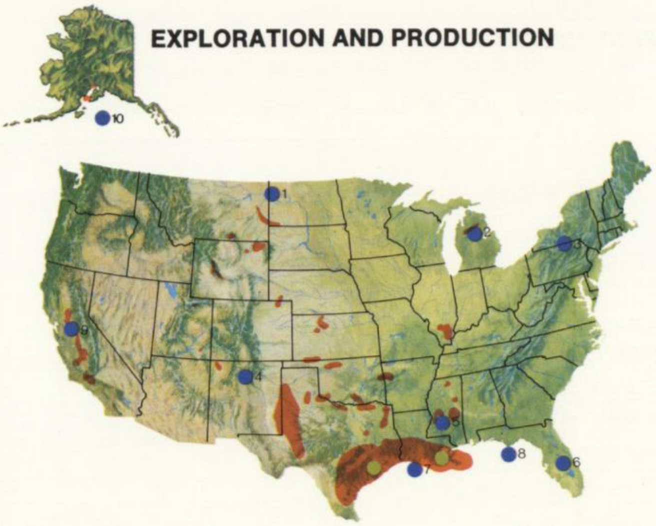
● Research Laboratories

Bellaire Research Center—Houston, Texas
Biological Sciences Research Center—Modesto, Calif.
Chemical Research Laboratory—Houston, Texas
Elastomers Technical Center—Torrance, Calif.
M-T-M Research Laboratory—Houston, Texas
M-T-M Research Laboratory—Wood River, Ill.
Plastics and Resins Technical Center—Woodbury, N.J.
Shell Pipe Line Research and Development Laboratory—Houston, Texas

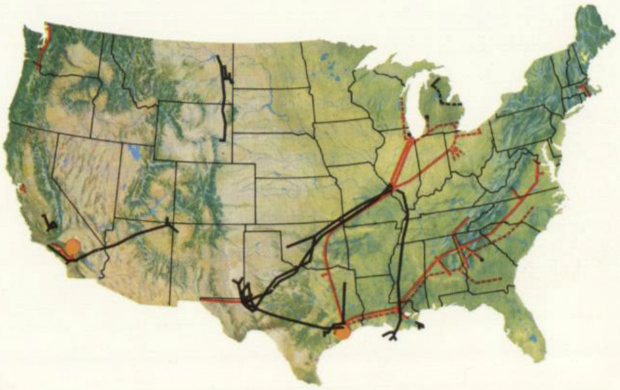
CORPORATE

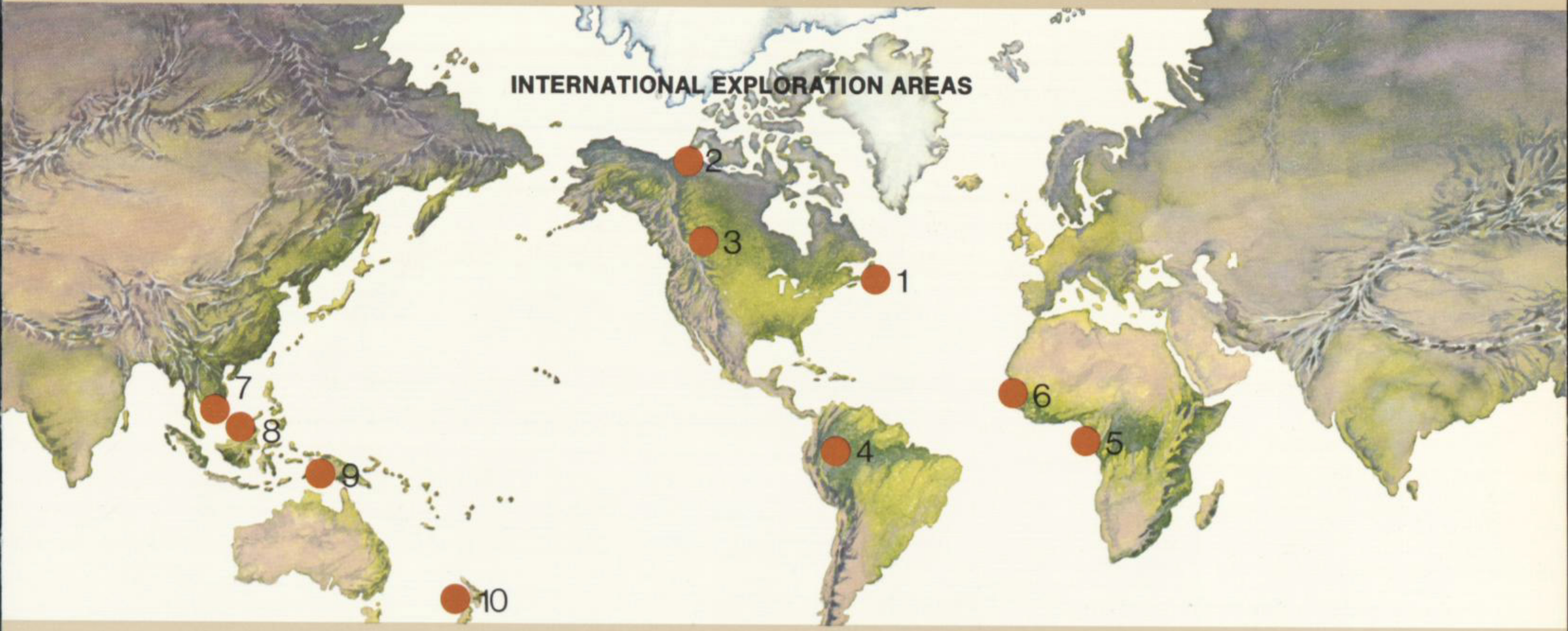


EXPLORATION AND PRODUCTION



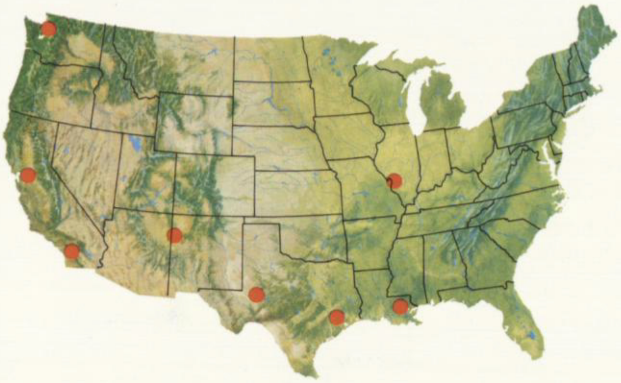
TRANSPORTATION AND SUPPLIES



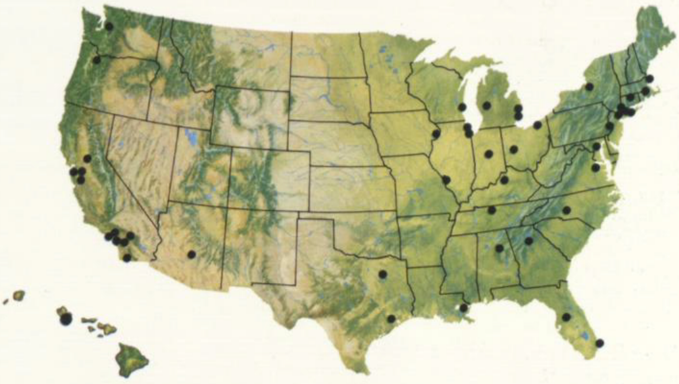


INTERNATIONAL EXPLORATION AREAS

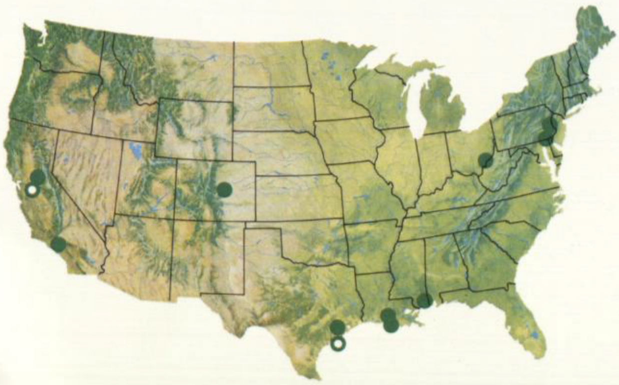
MANUFACTURING



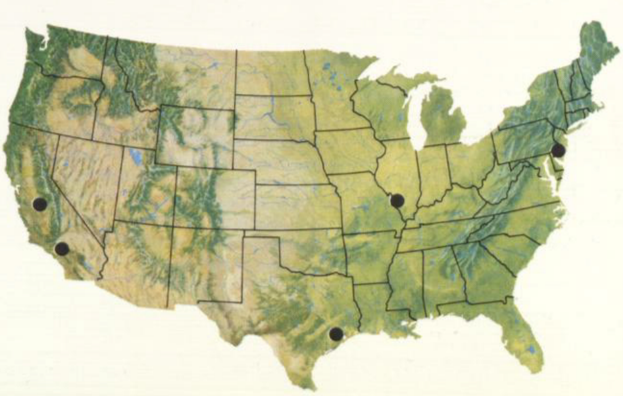
MARKETING



SHELL CHEMICAL



SHELL DEVELOPMENT



Accounting Policies

This summary of the major accounting policies of Shell Oil Company and its consolidated subsidiaries (hereinafter referred to as "Shell") is presented to assist the reader in evaluating Shell's financial statements and other data contained in this report. In all material respects, Shell has consistently followed these policies for the ten year period covered by this annual report and originally reported net income has not been revised or restated. As noted below, in 1973 Shell changed its method of valuing inventories of oils and chemicals.

Principles of Consolidation

The financial statements include the accounts of Shell Oil Company (hereinafter referred to as "Company") and all of its wholly owned subsidiaries. All companies acquired have consistently been accounted for as purchases; goodwill, if any, is amortized over a period of benefit which has not exceeded ten years.

The only subsidiary of Shell not wholly owned is Butte Pipe Line Company (51% owned), and the investment therein, plus the investments in less than majority owned companies in which Shell has a voting stock interest of 20% or more, are carried at equity in underlying net assets. Investments in less than 20% owned companies are carried at cost with dividends recorded in income as received.

Short Term Securities

Short term securities are carried at cost which approximates market. Interest is accrued and reflected in dividends, interest and other income.

Inventories

In 1973 the Company adopted as its cost basis the last-in-first-out method of valuing inventories of oils and chemicals. Prior to 1973 inventories of oils and chemicals were carried at the lower of market or of the average cost resulting from charging to costs the highest of inventory carrying value, current cost of production or purchases. Materials and supplies inventories are carried at average cost or less, as in the past.

The new method, which was adopted to achieve a better matching of current costs against current income and to conform more closely to U.S. petroleum industry practice, had no material effect on 1973 net income.

Mineral Leasehold Costs

Direct cost of acquiring undeveloped acreage, generally called lease bonus, is capitalized. Amortization from date of acquisition is based upon experience of the Company in order to fully amortize over the holding period those leases that may be unproductive. The cost of leases which become productive is transferred to a producing property account.

Exploratory Costs

Exploratory expenses, including geological and geophysical expenses, annual delay rentals on oil and gas leases and all exploratory and development dry hole costs are charged to income as incurred.

Research

Expenditures for research, except for land, buildings and standard items of equipment which extend beyond the immediate life of a project, are expensed when incurred.

Depreciation, Depletion and Amortization

Depreciation, depletion and amortization of the capital cost of producing properties, both tangible and intangible, are provided for on a unit of production basis. Developed reserves are used in computing unit rates for tangible and intangible development costs and proved reserves for depletion of leasehold costs. In all cases the unit determination is by field. Other plant and equipment are depreciated on a straight line basis over their estimated useful lives. On a cycle basis asset lives are reviewed for propriety of estimated useful life. Changes in depreciation rates, if any, are prospective only. Differing rates or deductions are used for tax purposes.

Maintenance, Repairs and Retirement of Properties

Major renewals and betterments are charged to the property accounts while minor replacements, maintenance and repairs which do not improve or extend life are expensed currently. At the time properties are retired or otherwise disposed of in the normal course of business, the cost is charged against the accumulated provision; however, if the retirement relates to a casualty or material obsolescence, the loss or gain is reflected in current income.

Office Relocation, Employee Relocation and Severance Costs

The cost directly related to relocating operating and executive offices from New York was amortized over a four year period ending in September, 1973. The cost of consolidating research facilities is being amortized over a four year period commencing in January, 1972. All other office relocation, employee relocation or severance costs are charged to expense when incurred.

Non-Mineral Leases

Obligations under noncancellable leases and other contractual commitments are reflected in the Notes to Financial Statements.

Income Taxes

Items of income or income deductions are often recognized for payment of income taxes and for book purposes in different time periods; however, tax allocation accounting as prescribed by Accounting Principles Board Opinion No. 11 adjusts book income to eliminate the effect of all material book/tax timing differences.

For those differences pertaining to capital extinguishments, including intangible drilling and development costs deducted currently for tax purposes, tax deferment is computed by applying the current tax rates to the current difference in deduction. The net cumulative effect is reflected in Deferred Credits—Federal Income Taxes in the Balance Sheet.

For other timing differences tax deferment is computed by setting up initial differences at current tax rates and reversing these amounts in the appropriate subsequent period. The net cumulative effect of the latter is reflected in Receivables, Prepayments, Etc. in the Balance Sheet.

Investment tax credits are applied to reduce federal income taxes in the year realized.

Statement of Income and Retained Earnings

Revenues	**YEAR 1973**	**YEAR 1972**
Sales and other operating revenue (including consumer excise and sales taxes)	$5,701,135,000	$4,817,468,000
Dividends, interest and other income	48,431,000	32,368,000
	5,749,566,000	4,849,836,000
Costs and Expenses		
Purchased raw materials and manufactured products	2,264,903,000	1,693,295,000
Costs and operating expenses	1,071,777,000	989,685,000
Selling, general and administrative expenses	503,154,000	489,788,000
Income, operating and consumer taxes:		
Consumer excise and sales taxes	817,327,000	741,570,000
Operating taxes	135,465,000	136,212,000
Federal and other income taxes	121,771,000	82,578,000
Depreciation, depletion, amortization and retirements, including dry holes	441,695,000	396,805,000
Interest and discount amortization on indebtedness	60,780,000	59,423,000
	5,416,872,000	4,589,356,000
Net Income	332,694,000	260,480,000
1973—$4.94 and 1972—$3.86 per share based on weighted average shares outstanding of 67,365,167 and 67,396,610 respectively.		
Retained Earnings at Beginning of Year	2,116,801,000	2,018,072,000
	2,449,495,000	2,278,552,000
Cash dividends paid: $2.40 per share	161,704,000	161,751,000
Retained Earnings at End of Year	$2,287,791,000	$2,116,801,000

The notes on pages 28, 29 and 30 are an integral part of these statements.

Balance Sheet

ASSETS	DECEMBER 31, 1973	DECEMBER 31, 1972
Current Assets		
Cash	$ 62,851,000	$ 25,928,000
Short term securities	383,542,000	356,384,000
Receivables, prepayments, etc. less 1973—$25,239,000 and 1972—$22,252,000 allowance for doubtful accounts	894,780,000	849,084,000
Owing by affiliated companies	5,218,000	9,507,000
Inventories of oils and chemicals	322,944,000	316,948,000
Inventories of materials and supplies	43,776,000	38,244,000
Total Current Assets	1,713,111,000	1,596,095,000
Investments and Long Term Receivables	91,628,000	84,073,000
Properties, Plant and Equipment	3,526,924,000	3,438,870,000
Deferred Charges	49,501,000	52,562,000
	$5,381,164,000	$5,171,600,000

LIABILITIES AND SHAREHOLDERS' INVESTMENT		
Current Liabilities		
Accounts payable—trade	$ 472,868,000	$ 357,094,000
Other payables and accruals	193,309,000	326,731,000
Income, operating and consumer taxes	234,185,000	210,798,000
Owing to affiliated companies	50,374,000	20,449,000
Long term debt due within one year	10,860,000	13,099,000
Total Current Liabilities	961,596,000	928,171,000
Long Term Debt Less Unamortized Discount 1973—$723,000 and 1972—$812,000	1,020,865,000	1,025,569,000
Deferred Credits—Federal Income Taxes	303,628,000	292,892,000
Shareholders' Investment		
Common stock, authorized 80,000,000 shares at $1.00 par value, issued 1973—67,558,118 and 1972—67,553,618 shares at stated value	234,135,000	234,130,000
Amount in excess of common stock stated value	583,306,000	583,111,000
Retained earnings	2,287,791,000	2,116,801,000
	3,105,232,000	2,934,042,000
Less shares of common stock held in treasury at cost: 1973—192,880 and 1972—154,680	10,157,000	9,074,000
Total Shareholders' Investment	3,095,075,000	2,924,968,000
	$5,381,164,000	$5,171,600,000

The notes on pages 28, 29 and 30 are an integral part of these statements.

Statement Of Changes In Financial Position

Funds Provided

	YEAR 1973	YEAR 1972
Net income	$332,694,000	$260,480,000
Depreciation, depletion, amortization and retirements	369,078,000	345,759,000
Dry hole costs (included in capital expenditures)	72,617,000	51,046,000
Deferred credits—federal income taxes (related to write-offs)	10,735,000	11,332,000
TOTAL PROVIDED FROM OPERATIONS	785,124,000	668,617,000
Increase in long term debt	31,454,000	214,000,000
Investments, long term receivables and deferred charges (less amounts included in capital expenditures)	10,047,000	4,236,000
Property sales, salvage, etc. (net)	36,291,000	26,225,000
Issuance or sale of Company shares	10,163,000	236,000
TOTAL	$873,079,000	$913,314,000

Funds Applied

Capital expenditures including dry hole costs	$580,581,000	$590,903,000
Dividends paid	161,704,000	161,751,000
Purchase of Company shares	11,045,000	——
Decrease in long term debt	36,158,000	25,214,000
	789,488,000	777,868,000
Increase (decrease) in working capital:		
Cash and short term securities	64,081,000	192,577,000
Receivables and prepayments	41,407,000	189,597,000
Inventories	11,528,000	(20,493,000)
	117,016,000	361,681,000
Payables and accruals	(12,277,000)	(205,992,000)
Income, operating and consumer tax liabilities	(23,387,000)	(17,258,000)
Long term debt due within one year	2,239,000	(2,985,000)
	83,591,000	135,446,000
TOTAL	$873,079,000	$913,314,000

The notes on pages 28, 29 and 30 are an integral part of these statements.

Notes to Financial Statements

1. ACCOUNTING POLICIES

Certain information relative to accounting policies is presented on page 24 of this report.

2. GENERAL

Shell continued in 1973 to have transactions, including the purchase, sale and transportation of crude oil, petroleum and chemical products in the ordinary course of business, with subsidiaries of Royal Dutch Petroleum Company and The "Shell" Transport and Trading Company, Limited, parent companies of Shell Oil Company. Such transactions also included certain foreign venture arrangements with respect to the exploration for and development of crude oil and natural gas, and a one-third stock ownership interest in a Netherlands Antilles terminalling and storage facility under construction.

3. INVENTORIES OF OILS AND CHEMICALS

Inventories of oils and chemicals used in computing costs for 1973 and 1972 totaled $322,944,000 and $316,948,000 at December 31, 1973 and 1972, and $328,669,000 at January 1, 1972. Cost of sales for the year 1973 was essentially equivalent to then current replacement costs under the last-in-first-out method. The excess of current replacement cost over the carrying value of inventories at December 31, 1973 and December 31, 1972 was approximately $223,087,000 and $48,220,000, respectively.

5. OPERATING AND INCOME TAXES

	Year	
	1973	1972
Operating Taxes:		
Real and personal property	$ 56,996,000	$ 56,661,000
Oil and gas production	33,965,000	33,117,000
Social security	19,357,000	17,115,000
Other	25,147,000	29,319,000
	$135,465,000	$136,212,000
Federal And Other Income Taxes:		
Current*	$123,124,000	$ 81,766,000
Deferred	(1,353,000)	812,000
	$121,771,000	$ 82,578,000

*After deducting investment tax credits of $17,908,000 in 1973 and $17,600,000 in 1972.

6. RECEIVABLES, PREPAYMENTS, ETC.

The receivables comprised trade accounts of $749,100,000 and miscellaneous accounts of $99,351,000 at December 31, 1973 and $646,820,000 and $144,441,000, respectively, at December 31, 1972. The allowance for doubtful accounts increased a net of $2,987,000 during 1973 and $5,739,000 in 1972 which included provision, charged to income, of $28,583,000 and $21,818,000 offset by write-off of $25,596,000 and $16,079,000, respectively, for uncollectible receivables less cash collections of receivables previously written off.

4. PROPERTIES, PLANT AND EQUIPMENT

	1973 Capital Expenditures		Investment December 31, 1973			Investment December 31, 1972		
	Amount	%	Cost	Net	%	Cost	Net	%
			(Thousands of Dollars)					
Exploration and Production:								
Producing properties (incl. drilling)	$245,841	42	$2,992,855	$1,236,408	35	$2,869,565	$1,225,186	36
Unproven leaseholds	46,568	8	240,935	181,914	5	237,218	209,755	6
Other facilities	4,704	1	53,731	17,184	—	52,417	17,620	1
Oil Refineries	46,506	8	1,254,498	626,617	18	1,215,948	619,731	18
Chemical Plants	67,888	12	735,845	427,031	12	704,999	394,038	11
Service Stations	47,981	8	722,355	576,556	16	709,074	573,385	17
Other Marketing Facilities	20,885	4	259,040	129,653	4	237,970	115,123	3
Pipelines	46,099	8	403,798	201,232	6	368,881	177,289	5
Other Transportation Facilities	10,549	2	31,760	24,258	1	21,325	15,154	—
Miscellaneous Facilities	43,560	7	141,310	106,071	3	140,258	91,589	3
Total	$580,581	100	$6,836,127	$3,526,924	100	$6,557,655	$3,438,870	100

7. INCENTIVE COMPENSATION PLAN

Under the 1971 Incentive Compensation Plan, the Board of Directors may make incentive compensation awards to key employees (including officers and directors who are key employees) of the Company or of any of its wholly owned subsidiaries. These awards, in the aggregate, shall not exceed 2½% of the amount by which the adjusted net income of the Company and consolidated subsidiary companies for the year (as defined in the Plan) shall exceed 6% of the capital employed by the Company and such subsidiary companies during that year (as so defined). The provision for awards, which is made and charged against income for the current year in anticipation of awards for such year to be made the following year, amounted to $1,800,000 in 1973 and $1,400,000 in 1972. Awards in 1973 to key employees totaled $1,285,000.

8. PENSION PLANS AND PROVIDENT FUND

The Shell Pension Plan covers the regular full-time employees of the Company and its principal subsidiary, Shell Pipe Line Corporation. The sums regularly contributed to the Shell Pension Plan and charged against income by the participating companies under the Plan are calculated as a percentage of the payrolls and are determined each year by the boards of directors of the participating companies on a basis which gives due consideration to accepted actuarial principles.

The Supplemental Pension Plan has been provided to equate approximately the pension benefits of Senior Staff (consisting of certain officers and other high-ranking employees), required in ordinary course to retire at age 60, to the amounts they would have received had they been permitted to continue to work at final salary rates to the normal retirement age of 65 under the Shell Pension Plan. Charges against income under this Plan are also based on actuarial principles.

The Shell Provident Fund is open to regular full-time employees of the Company and its principal subsidiary after stated periods of service. An employee may elect to have a permissible percentage of his salary or wages paid into the Fund whereupon the employing company contributes a like amount out of current or accumulated earnings or profits. Eligible participants can direct that all or part of their employing company's current contributions to the Provident Fund be invested in the common stock of the Company (the Shell Stock Fund). During 1973, such common stock investments, amounting to $29,886,000 represented 552,579 shares of which 516,400 shares were purchased on the New York Stock Exchange and 36,179 were shares transferred among individual accounts within the Shell Stock Fund. The Fund held 3,415,784 shares of the Company's common stock at the end of 1973 and 3,094,078 shares at December 31, 1972.

The aggregate cost to the Company and its principal subsidiary of the Shell Pension Plan, Supplemental Pension Plan and Shell Provident Fund was $57,474,000 for 1973 and $58,398,000 for 1972. The cost for the Shell Pension Plan includes an annual provision to fully amortize unfunded prior service cost of $43,415,000 by the end of 1995.

9. INCENTIVE STOCK OPTION PLANS

At December 31, 1973, 261,500 shares of the Company's authorized but unissued common stock were reserved under the Plans, adopted in 1965 and in 1971, for sale to key employees, of which 104,000 shares were available for future options under the 1971 Plan. Changes during 1973 were:

	Shares Under Option	
	1965* Plan	1971 Plan
Outstanding Jan. 1, 1973 (of which 126,000 were exercisable)	101,000	53,000
Granted at average price of $53.33 per share	—	43,000
Expired	(35,000)	—
Exercised at average price of $44.48 per share	(2,500)	(2,000)
Outstanding Dec. 31, 1973 (of which 108,500 were exercisable)	63,500	94,000

*The 1965 Plan was terminated in 1971 without affecting outstanding options.

Under the 1971 Plan the Board of Directors may grant qualified or non-qualified options to key employees (including officers and directors who are key employees) of the Company or any of its wholly owned subsidiaries at not less than the fair market value of the stock at the date of the grant. Non-qualified options issued under the 1971 Plan will not afford optionees the special income tax advantages provided under the Internal Revenue Code of 1954 in the case of qualified options.

Generally, options under the Plans have not and may not be granted at less than the fair market value at the date of grant, may not be exercised within eighteen months of issuance and expire not later than five years from the date of grant for qualified options, and ten years for non-qualified options. Qualified options are by their terms not exercisable until after certain earlier options have been exercised or the time for their exercise has expired, as provided in the Internal Revenue Code of 1954.

10. LONG TERM DEBT

Long term debt due after one year consisted of the following:

	December 31	
	1973	1972
Shell Oil Company:		
Non-interest bearing loan due 1975 through 1977	$ 38,825,000	$ 39,701,000
5% Notes Due 1980 (secured by purchase money mortgage)	16,750,000	16,750,000
4⅝% Sinking Fund Debentures Due 1986, after deducting $20,071,000 and $7,188,000 principal amounts of debentures held in treasury at December 31, 1973 and 1972	134,929,000	155,000,000
4½% Notes Due 1990	125,000,000	130,000,000
5% Debentures Due 1991	130,000,000	135,000,000
5.30% Debentures Due 1992 after deducting $5,370,000 and $5,070,000 principal amounts of debentures held in treasury at December 31, 1973 and 1972	134,630,000	139,930,000
8½% Debentures Due 2000	150,000,000	150,000,000
7¼% Debentures Due 2002	200,000,000	200,000,000
Shell Pipe Line Corporation:		
7½% Guaranteed Sinking Fund Debentures Due 1999	60,000,000	60,000,000
Term loans, at interest approximating prime bank rate, due in 1974—to be refinanced	20,000,000	—
Shell Explorer Limited:		
Non-interest bearing loan due 1981	11,454,000	—
	1,021,588,000	1,026,381,000
Less unamortized discount	723,000	812,000
Long term debt less unamortized discount	$1,020,865,000	$1,025,569,000

Of the foregoing long term debt due after one year from December 31, 1973, $18,888,000 principal amount will be due in 1975, $36,732,000 in 1976, $57,764,000 in 1977 and $37,000,000 in 1978.

11. LEASED ASSETS, COMMITMENTS AND CONTINGENT LIABILITIES

Rental expenses covering service stations, buildings and other facilities, excluding delay rentals paid to retain mineral rights in undeveloped leaseholds, amounted to $56,780,000 in 1973 and $53,670,000 in 1972. These amounts have been reduced by sublease rental income of $60,749,000 in 1973 and $58,468,000 in 1972. Estimated net contingent rental income based on usage or sales amounted to $34,284,000 and $31,966,000, respectively.

At December 31, 1973, the minimum annual amounts including taxes, insurance and maintenance payable under noncancellable leases and other contractual commitments totaled:

	Service* Stations	Buildings	Barges & Tankers	Other Facilities	Total
	(Thousands of Dollars)				
1974	$ 38,576	13,623	40,957	20,908	$114,064
1975	$ 36,325	11,837	30,789	10,020	$ 88,971
1976	$ 33,986	9,647	13,234	7,227	$ 64,094
1977	$ 31,691	8,991	8,469	4,920	$ 54,071
1978	$ 29,648	8,326	7,662	2,242	$ 47,878
1979-83	$122,142	35,424	33,677	5,536	$196,779
1984-88	$ 66,757	32,066	8,974	4,792	$112,589
1989-93	$ 16,601	24,745	1,670	612	$ 43,628
Thereafter	$ 587	5,235	—	15	$ 5,837

*Before deduction of related sublease rental income. Future income from continued renewals of such subleases is expected to substantially offset rental commitments.

The present (discounted) value of the above commitments in the aggregate, after excluding taxes, insurance and other amounts not constituting payments for property rights, approximated $411,048,000 at December 31, 1973.

At December 31, 1973, Shell was committed to expend under agreements with subsidiaries of the Royal Dutch/Shell Group $81,316,000 (Canadian) through 1976 for exploration work on nonproducing oil and gas interests and $11,197,000 (Canadian) through 1980 for research on methods of producing synthetic crude from nonproducing interests in tar sands and heavy oil accumulations in Canada, and $47,481,000 for exploration and development work on oil and gas interests in Malaysia.

Also, under long term agreements with certain pipe line companies in which stock interests are held, the Company may be required to advance funds against future transportation charges in the event such companies are unable to meet their financial obligations.

Shell has no commitments or contingent liabilities which, in the judgment of the Management, would result in losses which would materially affect its financial position.

REPORT OF INDEPENDENT ACCOUNTANTS

To the Shareholders of Shell Oil Company:

In our opinion, the accompanying balance sheet and the related statements of income and retained earnings and of changes in financial position present fairly the financial position of Shell Oil Company and consolidated subsidiary companies at December 31, 1973 and 1972 and the results of their operations and the changes in financial position for the years then ended, in conformity with generally accepted accounting principles consistently applied. Our examinations of these statements were made in accordance with generally accepted auditing standards and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

Price Waterhouse & Co.

1200 Milam Street
Houston, Texas 77002
February 4, 1974

The Board of Directors has reviewed with representatives of Price Waterhouse & Co. their audit of the accounts, internal controls and financial reports of Shell Oil Company. A recommendation to establish a standing audit committee will be presented to the Board early in 1974.

Ten Year Review of Financial Data

Dollars in thousands except per share amounts		1973	1972
Revenues	Oil and gas		
	Refined products	$2,819,397	2,307,897
	Crude oil	$ 999,483	826,599
	Natural gas	$ 194,361	191,863
	Other operating revenue	$ 123,032	104,299
	Dividends, interest and other income	$ 46,914	27,139
	TOTAL	$4,183,187	3,457,797
	Chemical		
	Operating revenue	$ 747,535	645,240
	Dividends, interest and other income	$ 1,517	5,229
	TOTAL	$ 749,052	650,469
	Consumer excise and sales taxes	$ 817,327	741,570
	TOTAL REVENUES	$5,749,566	4,849,836
Costs and Expenses	Operating costs and expenses	$3,839,834	3,172,768
	Income, operating and consumer taxes	$1,074,563	960,360
	Depreciation, depletion, amortization and retirements, including dry holes	$ 441,695	396,805
	Interest and discount amortization on indebtedness	$ 60,780	59,423
	TOTAL COSTS AND EXPENSES	$5,416,872	4,589,356
Income and Dividends	Net income	$ 332,694	260,480
	Net income per share*	$ 4.94	3.86
	Cash dividends	$ 161,704	161,751
	Cash dividends per share	$ 2.40	2.40
	Funds provided from operations	$ 785,124	668,617
Financial Position at Year End	Current assets	$1,713,111	1,596,095
	Current liabilities	$ 961,596	928,171
	WORKING CAPITAL	$ 751,515	667,924
	Properties, plant and equipment	$6,836,127	6,557,655
	Accumulated depreciation, depletion and amortization	$3,309,203	3,118,785
	NET PROPERTIES, PLANT AND EQUIPMENT	$3,526,924	3,438,870
	Total assets	$5,381,164	5,171,600
	Long term debt less unamortized discount	$1,020,865	1,025,569
	Shareholders' investment	$3,095,075	2,924,968
	Shareholders' investment per share	$ 45.94	43.40
Capital Expenditures	Exploration and production (including dry holes)	$ 297,113	367,812
	Oil refineries	$ 46,506	32,444
	Chemical plants	$ 67,888	39,440
	Marketing facilities	$ 68,866	92,576
	Pipelines and other transportation facilities	$ 56,648	26,098
	Miscellaneous facilities	$ 43,560	32,533
	TOTAL	$ 580,581	590,903
Exploration, Production and Research Expenditures	Oil and gas leases	$ 46,859	153,062
	Producing wells and equipment	$ 147,190	157,191
	Natural gas processing plants	$ 30,447	6,513
	Dry holes	$ 72,617	51,046
	Geological, geophysical and land expenses	$ 96,234	85,720
	Lease rentals	$ 14,428	12,924
	TOTAL EXPLORATION AND PRODUCTION	$ 407,775	466,456
	Research expense	$ 62,124	60,090
Shareholders and Employees	Shares outstanding at year end (in thousands)	67,365	67,399
	Number of shareholders at year end	32,025	32,935
	Salaries, wages and employee benefits		
	Salaries and wages	$ 415,729	407,949
	Employee benefits (including vacation, holiday and sick pay)	$ 154,815	151,547
	TOTAL	$ 570,544	559,496
	Number of employees at year end	32,080	32,871

**Per weighted average share outstanding each year.*

Shell Oil Company and Subsidiary Companies

1971	1970	1969	1968	1967	1966	1965	1964
2,199,015	2,079,077	2,066,973	1,968,520	1,848,429	1,732,104	1,578,006	1,422,978
829,195	730,581	664,431	617,783	588,393	513,718	497,323	469,468
201,378	172,459	163,141	128,130	135,906	121,250	104,476	95,653
107,065	84,788	98,800	80,447	55,524	41,801	21,490	19,635
27,994	27,557	38,514	33,235	14,764	15,805	12,639	10,786
3,364,647	3,094,462	3,031,859	2,828,115	2,643,016	2,424,678	2,213,934	2,018,520
555,720	522,641	543,757	522,194	443,543	405,766	358,745	320,918
4,543	3,777	7,881	2,231	1,671	543	402	383
560,263	526,418	551,638	524,425	445,214	406,309	359,147	321,301
698,865	709,867	692,609	655,190	584,580	559,888	529,668	491,464
4,623,775	4,330,747	4,276,106	4,007,730	3,672,810	3,390,875	3,102,749	2,831,285
3,032,184	2,772,278	2,718,999	2,506,254	2,334,392	2,145,622	1,950,787	1,801,494
888,566	911,766	879,385	837,085	745,515	715,942	672,848	601,323
410,535	369,408	351,831	317,916	277,310	251,011	229,216	219,013
47,986	40,090	34,740	34,384	30,744	23,100	15,867	11,265
4,379,271	4,093,542	3,984,955	3,695,639	3,387,961	3,135,675	2,868,718	2,633,095
244,504	237,205	291,151	312,091	284,849	255,200	234,031	198,190
3.63	3.52	4.32	4.72	4.66	4.19	3.85	3.27
161,738	161,719	161,778	151,376	128,280	115,731	103,194	90,798
2.40	2.40	2.40	2.30	2.10	1.90	1.70	1.50
662,184	628,525	673,718	639,346	569,835	521,704	487,446	437,508
1,234,414	1,232,619	1,255,089	1,403,179	1,061,733	984,364	891,608	785,589
701,936	755,623	724,642	757,044	661,533	609,252	521,146	432,643
532,478	476,996	530,447	646,135	400,200	375,112	370,462	352,946
6,275,244	6,076,388	5,675,885	5,272,171	4,880,908	4,485,981	4,092,720	3,704,588
3,003,030	2,819,693	2,643,887	2,494,339	2,324,298	2,237,048	2,136,993	2,044,043
3,272,214	3,256,695	3,031,998	2,777,832	2,556,610	2,248,933	1,955,727	1,660,545
4,646,282	4,608,801	4,356,222	4,229,996	3,660,021	3,273,449	2,885,137	2,486,169
836,783	835,788	711,508	713,241	718,721	553,107	415,535	267,424
2,826,003	2,742,975	2,667,570	2,537,945	2,067,340	1,897,934	1,750,793	1,612,638
41.93	40.71	39.59	37.66	33.80	31.14	28.82	26.63
228,640	289,951	307,581	281,442	343,637	252,740	253,812	253,401
38,923	91,265	123,315	41,519	61,612	113,551	122,165	78,296
38,616	54,260	63,057	107,338	59,144	75,592	43,518	25,903
99,681	143,296	93,310	76,529	111,315	96,623	81,248	43,605
17,726	24,237	28,202	34,354	35,202	14,824	22,854	21,492
26,924	31,816	13,288	12,890	7,977	10,645	7,064	9,254
450,510	634,825	628,753	554,072	618,887	563,975	530,661	431,951
17,765	64,740	42,673	51,834	117,139	15,418	41,609	41,933
133,179	149,244	181,605	176,358	174,883	172,871	152,262	151,853
23,046	17,467	20,172	8,397	7,379	11,657	11,273	9,093
54,650	58,500	63,131	44,853	44,236	52,794	48,668	50,522
83,429	72,478	81,082	78,419	74,665	65,603	63,856	61,381
9,205	10,141	9,794	9,892	10,022	11,390	10,452	14,385
321,274	372,570	398,457	369,753	428,324	329,733	328,120	329,167
51,676	53,765	57,074	55,690	52,549	50,660	46,531	43,398
67,393	67,385	67,384	67,386	61,169	60,958	60,753	60,561
33,238	31,690	29,070	28,591	25,963	24,566	23,917	23,669
399,619	395,188	377,874	348,749	326,819	296,987	270,659	259,696
139,823	135,940	125,488	115,444	108,008	100,119	91,840	85,350
539,442	531,128	503,362	464,193	434,827	397,106	362,499	345,046
35,000	36,754	38,998	39,080	38,330	37,058	34,548	33,578

Ten Year Review of Operating Data

Barrels daily in thousands		1973	1972
Marketing	Refined products sold (barrels daily)		
	Gasolines	570	539
	Distillates	354	334
	Residuals	90	76
	All other products	122	119
	TOTAL	1,136	1,068
	Natural gas sold (million cubic feet daily)	2,366	2,598
	Bulk distributing plants (leased and owned)	209	225
	Service stations		
	Owned	2,900	3,000
	Leased	6,600	6,900
	Other	9,900	10,800
	TOTAL	19,400	20,700
Manufacturing	Refinery processing intakes (barrels daily)		
	Anacortes	86	84
	Houston	273	231
	Martinez	83	75
	Norco	226	234
	Odessa/Ciniza	51	48
	Wilmington	100	84
	Wood River	266	245
	TOTAL	1,085	1,001
	Manufacturing outturn (barrels daily)		
	Gasolines	527	496
	Distillates	298	282
	Residuals	87	70
	All other products	226	213
	TOTAL	1,138	1,061
Transportation	Trunk pipeline mileage—crude oil (incl. partially-owned)	6,842	6,949
	Trunk pipeline mileage—products (incl. partially-owned)	10,657	10,682
	Crude oil transported by pipelines (million barrel miles)	135,908	131,584
	Products transported by pipelines (million barrel miles)	56,202	51,424
Production	Crude oil and natural gas liquids produced (barrels daily)		
	Gross	732	739
	Net		
	California	80	78
	Louisiana	323	343
	Montana	16	16
	New Mexico	10	11
	Oklahoma	11	10
	Texas	155	150
	Utah	10	5
	Other	26	25
	TOTAL	631	638
	Natural gas liquids produced (incl. in above) (barrels daily)	84	85
	Gross natural gas produced (million cubic feet daily)	2,679	2,918
	Net natural gas produced (million cubic feet daily)	2,268	2,460
	Crude oil purchased (barrels daily)	1,152	1,032
	Crude oil sold (barrels daily)	675	646
Exploration and Drilling	Net acreage (in thousands)		
	United States		
	Producing	867	865
	Non-producing	11,453	14,516
	TOTAL	12,320	15,381
	Foreign		
	Non-producing	60,813	39,967
	Net wells drilled		
	Exploratory—oil and gas	51	30
	dry holes	105	53
	Development—oil and gas	250	394
	dry holes	34	36
	TOTAL	440	513
	Net oil and gas wells producing or capable of producing		
	Entire working interest	9,298	9,533
	Partial interest (net)	3,889	4,016
	TOTAL	13,187	13,549

Shell Oil Company and Subsidiary Companies

1971	1970	1969	1968	1967	1966	1965	1964
537	518	515	491	454	424	394	370
311	302	305	289	285	267	254	227
67	92	93	91	89	83	89	83
105	93	95	95	93	98	93	84
1,020	1,005	1,008	966	921	872	830	764
2,715	2,738	2,654	2,315	2,122	1,897	1,661	1,565
312	363	516	591	624	707	703	701
3,000	2,500	2,500	2,100	2,200	1,600	1,400	1,400
6,800	8,000	8,400	9,300	9,400	10,100	10,100	9,900
10,600	10,600	11,100	11,700	12,100	12,300	13,100	13,000
20,400	21,100	22,000	23,100	23,700	24,000	24,600	24,300
90	86	89	90	83	79	74	72
214	164	162	157	152	145	144	141
84	94	91	79	71	39	37	41
208	208	201	192	178	156	141	122
46	44	46	42	39	40	37	27
87	84	96	98	95	92	92	91
237	232	216	201	202	202	194	193
966	912	901	859	820	753	719	687
497	458	458	432	402	360	343	326
253	246	243	240	229	222	213	196
70	91	90	87	74	64	70	71
184	143	120	115	119	112	108	104
1,004	938	911	874	824	758	734	697
7,247	7,226	7,130	6,938	6,457	6,432	6,460	6,421
10,347	8,732	8,514	8,453	7,781	7,821	7,361	7,040
128,184	126,029	111,909	108,382	109,951	104,715	100,770	98,837
46,067	46,001	44,465	39,718	39,086	35,239	31,434	26,943
731	688	626	607	589	543	493	466
74	77	82	80	72	69	65	64
350	304	261	250	240	208	187	170
17	18	18	20	22	22	21	23
12	13	14	14	14	16	15	13
11	11	12	13	14	15	15	15
135	139	129	123	121	113	101	95
4	2	2	2	2	3	3	3
26	31	30	30	29	28	24	24
629	595	548	532	514	474	431	407
79	68	63	58	54	52	47	42
3,020	3,027	2,975	2,636	2,453	2,180	1,926	1,821
2,542	2,548	2,490	2,201	2,046	1,834	1,626	1,559
1,007	936	952	910	875	797	789	753
646	614	599	577	561	505	493	459
868	857	862	854	855	897	860	844
14,276	11,512	14,153	14,182	10,918	9,983	11,405	14,702
15,144	12,369	15,015	15,036	11,773	10,880	12,265	15,546
36,513	36,311	—	—	—	—	—	—
11	32	15	17	27	39	35	52
63	90	226	122	109	122	104	142
330	359	353	569	541	534	413	732
45	73	104	80	54	77	126	83
449	554	698	788	731	772	678	1,009
9,943	10,148	10,389	10,428	10,477	10,655	11,036	11,185
4,284	3,913	4,066	3,993	3,990	3,939	3,634	3,514
14,227	14,061	14,455	14,421	14,467	14,594	14,670	14,699

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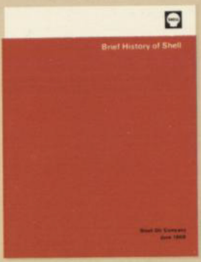

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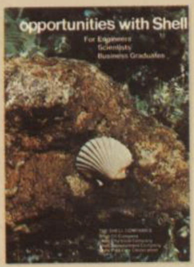

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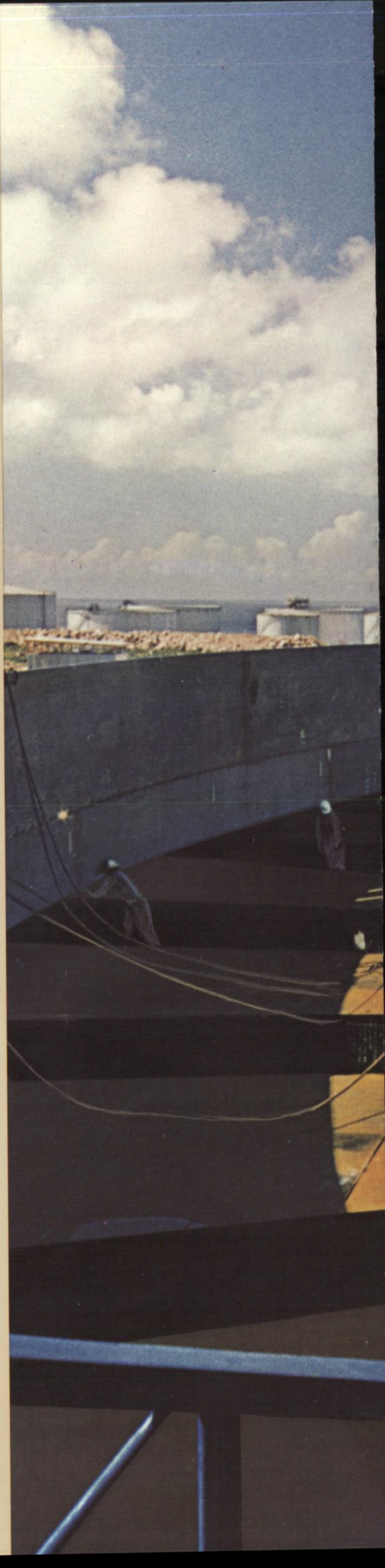

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